
Reshenie Bank Joint-Stock Company
Financial statements
for the year ended 31 December 2020

May 2021

This document contains 75 pages

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Translation from the original into English

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders, Supervisory Board, Management
of Reshenie Bank Joint-Stock Company,

Ref. number: 04-05/56

Date: 13 May 2021

Information about the auditee:

Name: Reshenie Bank Joint-Stock Company (abbreviated Bank's name – R-Bank JSC)

Location: 11 Ignatenko Str., 220035, Minsk, Republic of Belarus

Information on the state registration: Reshenie Bank Joint-Stock Company is registered upon the decision of the National Bank of the Republic of Belarus dated 09 November 1994, registration number 53

Payer's identification number: 100789114

Opinion

We have audited the accompanying financial statements of R-Bank JSC (hereinafter – “the Bank”), which comprise:

- ▶ The statement of financial position as at 31 December 2020;
- ▶ The statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended; and
- ▶ Notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of R-Bank JSC present fairly in all material respects the financial position of R-Bank JSC as at 31 December 2020, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (hereinafter – “IFRSs”).

Basis for opinion

We conducted our audit in accordance with the Law of Republic of Belarus No.56-3 “On auditing”, dated 12 July 2013, National rules on auditing, International Standards on Auditing (hereinafter - “ISAs”). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and ethical requirements applicable to our audit of financial statements in the Republic of Belarus, and we have fulfilled our other ethical responsibilities in accordance with these requirements and Code of Ethics for Professional Accountants.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Each matter specified below includes the information on how the corresponding matter had been addressed during our audit.

Allowance for impairment of loans to customers, as well as allowance for credit related commitments

Due to the materiality of the allowance for impairment of loans to customers and credit related commitments for the financial position of the Bank, as well as due to the complexity and necessity of applying judgments in estimating expected credit losses in accordance with IFRS 9 Financial Instruments (hereinafter - "IFRS 9") standard, this matter is a key audit matter.

In order to determine a significant increase in credit risk from the date of initial recognition, both on an individual and on a portfolio basis, and to calculate expected credit losses judgment must be applied. The assessment of the increase in credit risk is based on the relative change in credit ratings, the length of past due debt and other objective and subjective factors. The selection of thresholds at which the increase in credit risk is considered significant is also subjective.

During our audit, we paid particular attention to the following:

- ▶ assessment of the credit risk models and assumptions used to determine the key parameters of the reservation and expected credit losses for the portfolio;
- ▶ assessment of management's judgment on the identification of significant increases in credit risk on an individual and portfolio basis, using quantitative and qualitative criteria;
- ▶ testing expected future cash flows, including cash flows from collateral, for significant credit-impaired loans to customers and credit related commitments;
- ▶ the influence of macroeconomic indicators in assessing expected credit losses.

Our audit procedures included an assessment of compliance with the requirements of IFRS (IFRS) 9 methodology for calculating expected credit losses developed by the Bank to estimate Allowance for impairment of loans to customers, as well as of credit related commitments.

The calculation of expected credit losses includes valuation methodologies that use significant unobserved baseline data and factors, such as internal credit ratings, as well as complex statistical modelling and expert judgment. These methodologies are used to determine the probability of default, the value of the credit claim under the risk of default and the level of loss in case of default on the basis of available historical data and external information adjusted to projections, including projected macroeconomic variables.

Key audit matters (ending)

The calculation of expected credit losses for significant financial assets that have been impaired on a case-by-case basis requires analysis of financial and non-financial information and a broad use of assumptions. Estimation of future cash flows is based on significant unobserved baseline data such as current and projected borrower financial performance, collateral cost and probability assessment of possible scenarios. The use of other modeling methodologies, assumptions and projections may lead to substantially different estimates of the allowance for expected credit losses.

Information on the allowance for expected credit losses in respect of loans to customers, as well as of credit related commitments is provided in Note 8 "Loans to customers", Note 32 "Contingencies and Loss allowance" and Note 34 "Risk management" to the annual financial statements.

We assessed the reasonableness of the credit risk factors and thresholds selected by Management to determine a significant increase in credit risk on an individual and portfolio basis. We evaluated the consistency of the application of criteria selected by Management at the reporting date.

When testing the impairment calculated on a portfolio basis, we analyzed the underlying statistical models, key baseline data and assumptions, as well as projected information, used to calculate expected credit losses. For selected significant loans we have conducted a check of internal credit ratings, credit risk factors and stage classification. For our selected significant impaired corporate loans, we analyzed assumptions about future cash flows, including the collateral value and the likelihood of possible scenarios. We reviewed the results of the Bank's subsequent testing of the models applied for the purposes of IFRS 9.

We have also reviewed the disclosure in the annual financial statements for the Bank regarding the allowance for expected credit losses of loans to customers, as well as of credit related commitments in the financial statements with the requirements of IFRS 9.

Responsibilities of the Auditee for the Preparation of the Financial Statements

The Management of the auditee is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud and (or) error.

In preparing the financial statements, the Management is responsible for assessing the ability of the auditee to continue as a going concern and the appropriateness of applying the going concern principle, as well as the proper disclosure in the financial statements, where appropriate, of information on going concern.

Those charged with governance are responsible for overseeing the auditee's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance whether the financial statements are free from material misstatement, whether due to fraud and (or) error, and to issue an auditor's report that includes our opinion expressed in the prescribed form. Reasonable assurance forms a high level of assurance, but it does not guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise due to fraud and (or) error and are considered material if, individually or taken together, they could reasonably be expected to influence the economic decisions of the users of these financial statements taken on its basis.

As part of audit conducted in accordance with the Law of Republic of Belarus No.56-3 "On auditing", dated 12 July 2013, National rules on auditing and ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud and (or) error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error,
- ▶ as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control; Obtain an understanding of the internal control system relevant to the audit of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control system;
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures of the financial statements made by the auditee;
- ▶ Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the auditee's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements. Or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the auditee to cease to continue as a going concern;
- ▶ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Auditor's Responsibilities for the Audit of the Financial Statements (ending)

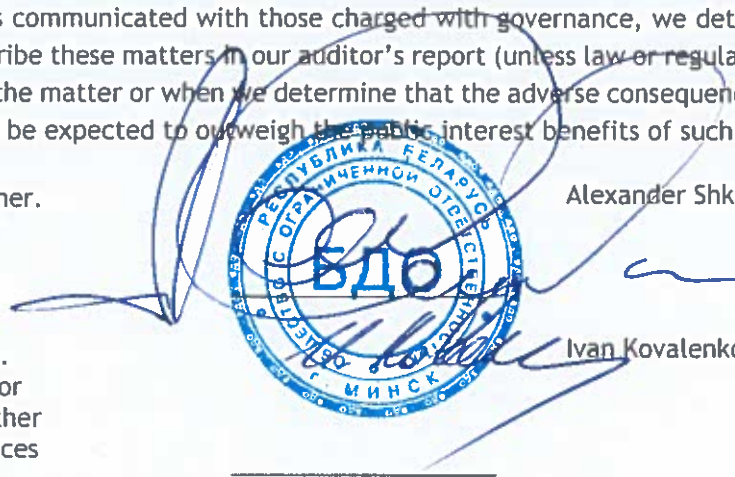
From the matters communicated with those charged with governance, we determine the key audit matters and describe these matters in our auditor's report (unless law or regulation precludes public disclosure about the matter or when we determine that the adverse consequences of such disclosure would reasonably be expected to outweigh the public interest benefits of such communication).

Engagement partner.
Managing partner
BDO in Belarus

Alexander Shkodin

Auditor-in-charge.
Deputy Director for
Consulting and Other
Professional Services

Ivan Kovalenko



Auditor's report date: 13 May 2021

Place of issue: Minsk, Republic of Belarus

Date of receipt by the auditee: 13 May 2021

Position, Full name VS. Borichevskaya

Signature

INFORMATION ABOUT THE AUDITOR:

| | |
|---|---|
| Name: | BDO Limited Liability Company |
| Location: | 103 Pobediteley ave., office 807, Minsk, 220020, Republic of Belarus |
| Information on the state registration: | Certificate on the state registration was issued by Minsk City Executive Committee dated 15 November 2013 |
| Payer's identification number: | 190241132 |

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

Management of R-Bank JSC is responsible for the preparation of financial statements of the Bank. The financial statements on pages 10 to 75 represent fairly the financial position of the Bank as at 31 December 2020, the results of its operations and cash flows for the year ended 31 December 2020 in accordance with International Financial Reporting Standards (hereinafter – "IFRSs").

The Management of the Bank confirms that proper accounting principles had been consistently applied during the reporting period. Reasonable and prudent judgments and estimates have been made in the preparation of the financial statements of the Bank. The Management also confirms that financial statements have been prepared on a going concern basis.

The Management of the Bank is responsible for proper accounting, taking necessary measures to protect the property of the Bank and detecting and preventing instances of fraud and other abuse. The Management of the Bank is also responsible for the management of the Bank in accordance with the legislation of the Republic of Belarus, including the rules established by the National Bank of the Republic of Belarus (hereinafter – "the National Bank").

The financial statements for the year ended 31 December 2020 are authorized for issue on 13 May 2021 and are signed on behalf of the Management of the Bank.

On behalf of the Management of the Bank:

Chairperson of the Management Board
S.D. Budnikov



Minsk
13 May 2021

Chief Accountant
V.S. Borichevskaya



STATEMENT OF FINANCIAL POSITION

| | Note | 31 December 2020 | 31 December 2019 |
|--|------|---------------------|---------------------|
| ASSETS | | | |
| Cash and cash equivalents | 6 | 28,560 | 35,198 |
| Due from banks | 7 | 6,599 | 3,941 |
| Loans to customers | 8 | 146,405 | 128,101 |
| Financial assets measured at fair value through profit or loss | 9 | 21 | - |
| Financial assets measured at fair value through other comprehensive income | 10 | 29,921 | 22,132 |
| Investment property | 11 | 236 | 292 |
| Property and equipment and intangible assets | 12 | 13,709 | 13,640 |
| Right-of-use assets | 13 | 420 | 261 |
| Other assets | 14 | 3,972 | 4,992 |
| TOTAL ASSETS | | 229,843 | 208,557 |
| LIABILITIES AND EQUITY | | | |
| Liabilities | | | |
| Due to banks | 15 | 9,928 | 9,293 |
| Due to customers | 16 | 141,842 | 129,272 |
| Debt securities issued | 17 | 13,660 | 10,030 |
| Subordinated loans | 18 | 17,548 | 14,314 |
| Lease liabilities | 19 | 420 | 261 |
| Derivative financial liabilities | 20 | 2 | - |
| Other liabilities | 21 | 2,370 | 2,813 |
| Total liabilities | | 185,770 | 165,983 |
| Equity | | | |
| Share capital | 22 | 73,639 | 73,639 |
| Revaluation reserve for financial assets measured at fair value through other comprehensive income | 10 | (1,312) | (213) |
| Unrecovered loss | | (28,254) | (30,852) |
| Total equity | | 43,073 | 42,574 |
| TOTAL LIABILITIES AND EQUITY | | 229,843 | 208,557 |

The accompanying notes on pages 16 to 75 form an integral part of these financial statements.

Chairperson of the Management Board
S.D. Budnikov

Minsk
13 May 2021

Chief Accountant
V.S. Borichevskaya

STATEMENT OF COMPREHENSIVE INCOME

| | Note | 2020 | 2019 |
|--|------------|---------------|---------------|
| Interest income | | 12,681 | 15,061 |
| Interest expenses | | (8,644) | (6,499) |
| Net interest income | 23 | 4,037 | 8,562 |
| Commission income | | 10,989 | 7,984 |
| Commission expenses | | (4,375) | (3,144) |
| Net commission income | 24 | 6,614 | 4,840 |
| Net gain from transactions with financial assets measured at fair value through profit or loss | 25 | 19 | (38) |
| Net gain from foreign currency transactions | 26 | 2,359 | 1,838 |
| Net gain on operations with financial instruments at amortized cost | 27 | (226) | 30 |
| Net (accrual) / recovery of allowances for other assets, including: | | 316 | (611) |
| <i>Net (accrual) / recovery of allowances for credit related commitments</i> | 32 | 432 | (325) |
| <i>Net (accrual) / recovery of allowances for the impairment of inventories</i> | 14 | (115) | (286) |
| Net other income | 28 | 1,545 | 1,434 |
| Total operating income | | 14,665 | 16,055 |
| Net (accrual) / recovery of allowance for impairment of financial assets: | 6-10, 14 | 3,268 | (1,969) |
| Personnel expenses | 29 | (7,560) | (7,217) |
| Amortization/Depreciation | 11, 12, 13 | (1,663) | (1,510) |
| Administrative expenses | 30 | (5,758) | (4,862) |
| Profit before tax | | 2,952 | 497 |
| Income tax expense | 31 | (354) | (72) |
| Net profit for the year | | 2,598 | 425 |

| | Note | Translation from the original into English | |
|--|------|--|------------|
| | | 2020 | 2019 |
| Other comprehensive income that will be subsequently reclassified to profit or loss | | | |
| Net change in allowance for expected credit losses on financial assets measured at fair value through other comprehensive income | 10 | (1,099) | 323 |
| Total other comprehensive income that will be subsequently reclassified to profit or loss | | (1,099) | 323 |
| TOTAL COMPREHENSIVE INCOME | | 1,499 | 748 |
| Basic earnings per ordinary share | 22.1 | 0.1772 | 0.0290 |

The accompanying notes on pages 16 to 75 form an integral part of these financial statements.

Chairperson of the Management Board
S.D. Budnikov

Chief Accountant
V.S. Borichevskaya

Minsk
13 May 2021

STATEMENT OF CHANGES IN EQUITY

| | Note | Share capital | Revaluation reserve for financial assets measured at fair value through other comprehensive income | Unrecovered Loss | Total Equity |
|---|------|---------------|--|------------------|--------------|
| Balance as at 31 December 2018 | | 73,639 | (536) | (31,277) | 41,826 |
| Total comprehensive income | | - | 323 | 425 | 748 |
| Net profit for the year | | - | - | 425 | 425 |
| Other comprehensive expenses for the year | 10 | - | 323 | - | 323 |
| Balance as at 31 December 2019 | | 73,639 | (213) | (30,852) | 42,574 |
| Effect of the application of IFRS 16 | | - | - | - | - |
| Balance as at 31 December 2019 | | 73,639 | (213) | (30,852) | 42,574 |
| Total comprehensive income | | - | (1,099) | 2,598 | 1,499 |
| Net profit for the year | | - | - | 2,598 | 2,598 |
| Other comprehensive expenses for the year | 10 | - | (1,099) | - | (1,099) |
| Balance as at 31 December 2020 | | 73,639 | (1,312) | (28,254) | 44,073 |

The accompanying notes on pages 16 to 75 form an integral part of these financial statements.

Chairperson of the Management Board
S.D. Budnikov

Minsk
13 May 2021

Chief Accountant
V.S. Borichevskaya

STATEMENT OF CASH FLOWS

| | Note | 2020 | 2019 |
|--|--------|----------------|----------------|
| <i>Cash flow from operating activities:</i> | | | |
| Interest income received | | 17,996 | 14,058 |
| Interest expenses paid | | (8,371) | (6,274) |
| Commission income received | | 10,957 | 8,347 |
| Commission expenses paid | | (4,349) | (2,948) |
| Realized results of foreign exchange, precious metals and gemstones operations | | 2,093 | 1,856 |
| Realized results of operations with financial assets measured at fair value through profit or loss | | (226) | 35 |
| Other income received | | 1,832 | 1,946 |
| Personnel expenses | 29 | (7,560) | (7,217) |
| Administrative expenses paid | | (5,781) | (4,827) |
| Cash flows from operating activities before changes in operating assets and liabilities | | 6,591 | 4,976 |
| <i>Increase/(decrease) in operating assets</i> | | | |
| Due from banks | | (2,362) | (878) |
| Loans to customers | | (5,606) | (17,210) |
| Financial assets measured at fair value through other comprehensive income | | (3,098) | (21,659) |
| Other assets | | 1,337 | (5,095) |
| <i>Increase/(decrease) in operating liabilities:</i> | | | |
| Due to banks | | (1,032) | 8,511 |
| Due to customers | | (5,793) | 26,310 |
| Debt securities issued | 17 | 3,331 | 521 |
| Other liabilities | | (779) | 411 |
| Net cash flows from operating activities before tax | | (7,411) | (4,113) |
| Income tax paid | | (201) | (120) |
| Net cash flow from operating activities | | (7,612) | (4,233) |
| <i>Cash flow from investing activities:</i> | | | |
| Acquisition of property and equipment and intangible assets | | (1,582) | (1,285) |
| Purchase of property and equipment and intangible assets | | - | 881 |
| Acquisition of financial assets measured at amortized cost | | - | (157,680) |
| Repayment of financial assets measured at amortized cost | | - | 157,680 |
| Net cash flow from investing activities | | (1,582) | (404) |
| <i>Cash flow from financing activities</i> | | | |
| Payments in respect of the amount of the lease liability | 13, 19 | (172) | (277) |

| | Note | Translation from the original into English | |
|--|------|--|---------|
| | | 2020 | 2019 |
| Net cash flow from financing activities | | (172) | (277) |
| Net increase/ (decrease) in cash and cash equivalents | | (9,366) | (4,914) |
| Effect of changes in foreign exchange rates on cash and cash equivalents | | 2,734 | (389) |
| Cash and cash equivalents at the beginning of the year (before deduction of allowance) | 6 | 35,652 | 40,955 |
| Cash and cash equivalents at the end of the year (before deduction of allowance) | 6 | 29,020 | 35,652 |

The accompanying notes on pages 16 to 75 form an integral part of these financial statements.

Chairperson of the Management Board
S.D. Budnikov

Minsk
13 May 2021

Chief Accountant
V.S. Borichevskaya

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Reshenie Bank Joint-Stock Company (hereinafter – the “Bank”) is a commercial bank established on 09 November 1994 as a closed joint stock entity with participation of foreign capital in accordance with the legislation of the Republic of Belarus.

The previous name of the Bank is Closed Joint-Stock Company “Trustbank”. The Bank was renamed on 08 June 2016 in accordance with the decision of the General Meeting of Shareholders.

The Bank is registered in the Unified State Register of Legal Entities and Individual Entrepreneurs under No. 100789114.

The main objectives of the Bank are:

- ▶ assistance in the development of commodity-money relations by providing the Bank's clients with a full range of banking services permitted by the current legislation of the Republic of Belarus;
- ▶ assistance to the development of entrepreneurship in the Republic of Belarus, expansion of production, achievement of a higher standard of living of the population;
- ▶ foreign trade financing;
- ▶ making a profit by the Bank and its shareholders.

During the reporting period, the Bank operated on the basis of the following licenses:

- ▶ general license of the National Bank No. 14 to conduct banking operations dated 08 June 2016;
- ▶ license to carry out professional and exchange activities on securities issued by the Ministry of Finance of the Republic of Belarus No. 02200/5200-246-1099, on 14 April 1995;
- ▶ license to carry out activities related to precious metals and gemstones issued by the Ministry of Finance of the Republic of Belarus No. 02200/21-00055 on 17 March 2004;
- ▶ license to carry out security activities by the Ministry of Internal Affairs of the Republic of Belarus No. 33030/355 on 21 September 1999.

The Bank was established as a universal bank for commercial and retail banking operations on the territory of the Republic of Belarus. The main activities of the Bank are the provision of corporate loans, loans to small and medium-sized businesses and individuals; raising resources in deposits from non-banking and banking organizations and individuals; maintenance of customer accounts; provision of guarantees and letters of credit; operations with cash and settlements operations, operations with securities, currencies and precious metals.

The Bank's registered legal address is 11 Ignatenko Str., 220035, Minsk, Republic of Belarus.

In accordance with the banking license No. 14 dated 08.06.2016, issued by the National Bank of the Republic of Belarus, the Bank may carry out the following banking operations:

- ▶ raising funds of individuals and legal entities to accounts and deposits;
- ▶ placement of raised funds of individuals and legal entities on accounts and deposits on their own behalf and at their own expense in a reimbursable, chargeable and time-bound manner;
- ▶ opening and maintaining bank accounts of individuals and legal entities;
- ▶ opening and maintaining accounts in precious metals;
- ▶ implementation of settlement and cash servicing of individuals and legal entities, including correspondent banks;
- ▶ foreign exchange operations;
- ▶ purchase and sale of precious metals and stones in cases stipulated by the National Bank;
- ▶ issuance of bank guarantees;

- ▶ trust management of funds under the contract of trust management of funds;
- ▶ issuance of bank payment cards;
- ▶ issuance of electronic money;
- ▶ issuance of securities which confirm the raising of funds into deposits and their placement on accounts;
- ▶ factoring;
- ▶ provision to individuals and legal entities of special premises or safes in them for bank storage of documents and valuables (cash, securities, precious metals and gem stones, etc.);
- ▶ transportation of cash, precious metals and gem stones and other valuables between banks and non-bank credit and financial organizations, their separate and structural divisions, as well as delivery of such valuables to customers of banks and non-bank credit and financial organizations.

In 2020, the Bank operated through 2 banking services centers in Minsk, 5 banking services centers in regional centers (in Grodno, Gomel, Brest, Vitebsk and Mogilev). (in Grodno, Gomel, Brest, Novopolotsk).

The average listed number of employees of Bank as at 31 December 2020 was 276 people (as at 31 December 2019 - 288 people).

The information on the shareholders of the Bank is presented below:

| | Share (%) 2020 | Share (%) 2019 |
|---|-------------------|-------------------|
| Joint venture "Intersportproekt" Limited (Republic of Belarus) | 18.3 | 18.3 |
| Joint venture "Saturn-Info" Limited (Republic of Belarus) | 13.4 | 13.4 |
| Alm Investments FZE (United Arab Emirates Free Zone Ras Al Khaimah, Ras A1 Khaimah) | 68.3 | 68.3 |
| Total | 100.0 | 100.0 |

The ultimate controlling owner of the Bank as at 31 December 2020 and 31 December 2019 is Mohammad Ahmad Salem Khalifa Alzaraim Al Suwaidi, resident of UAE, Dubai.

2. ECONOMIC ENVIRONMENT IN WHICH THE BANK OPERATES

The main volume of the Bank's operations is carried out in the Republic of Belarus.

Annual inflation in the consumer sector in 2020 amounted to 7.4% per annum, which is higher than the 3.7% level in 2019. The excess of the forecast parameter at the end of the year was due to the weakening of the Belarusian ruble, the deterioration of economic sentiment and the growth of inflationary and devaluation expectations, as well as supply shocks for certain food products. The main growth in the consumer price index was provided by food products and services. The price index for non-food products increased significantly.

The deterioration of forecasts of international rating agencies during the year reflected the risks of stability of the financial system, while reducing the possibility of access to foreign capital markets and attracting investments in the country's economy.

The volume of gross domestic product in 2020 decreased in comparable prices by 0.9% compared to the level of 2019.

The weakening of economic activity and the difficult epidemiological situation made it necessary to adjust the planned budget indicators in terms of revenues and expenses.

The weighted average exchange rate of the Belarusian ruble in the foreign exchange market of the Republic of Belarus against the Russian ruble in January-December 2020 was at the level 3.3776 rubles for 100 Russian rubles; against the US dollar - 2.4607 rubles per 1 US dollar, against the euro - 2.7760 rubles per 1 euro.

Taking into account the current inflation in 2020, the National Bank reduced the refinancing rate three times: from February 19 - from 9% to 8.75% per annum, from May 20 - from 8.75% to 8% per annum and from July 01 - from 8% to 7.75% per annum. The overnight deposit rate - on February 19 from 7.75% to 7% per annum, from May 20 - from 7% to 6.75%.

The average interest rate on new term bank deposits of legal entities in national currency in December 2020 was 12.37% per annum, on new term bank deposits of individuals - 17.48% per annum. The average interest rate on new bank loans to legal entities in national currency in December 2020 was 10.61% per annum, on new bank loans to individuals - 8.82% per annum.

Claims of other depository institutions to the economy in national currency for January 1, 2021 amounted to 33,559.9 million rubles and since the beginning of 2020 increased by 19.7%. As of 1 January 2021, claims of other depository institutions on the economy in foreign currency amounted to USD 12,972.6 million and increased by 1.7% since the beginning of 2020.

In aggregate, the depreciation of the Belarusian ruble exchange rate, the outflow of deposits, as well as the tightening of control over changes in the ruble monetary base led to a slowdown in the growth of the broad money supply. In annual terms, the growth in the average broad money supply in December 2020 amounted to 5.4 percent, which in general had a restraining effect on the intensity of inflationary processes. The volume of cash in circulation as of 1 January 2021, compared to 1 January 2020, increased by 11.2% and amounted to 4,124 million rubles.

Real disposable cash incomes of the household of Belarus in 2020 amounted to 104.6% compared to the same period in 2019.

The state debt of the Republic of Belarus as of 1 January 2021 amounted to 57.8 billion rubles and increased compared to the beginning of 2020 by 13.0 billion rubles, or by 29.0%.

Translation from the original into English

External public debt as of 1 January 2021 amounted to USD 18.6 billion, having increased since the beginning of the year by USD 1.4 billion (taking into account exchange rate differences), or by 8.4%. Domestic public debt as of 1 January 2021 amounted to 9.9 billion rubles, having increased since the beginning of the year by 1.1 billion rubles (taking into account exchange rate differences), or by 12.9%. In 2020, domestic foreign exchange and ruble-denominated government bonds were placed for legal entities and individuals in an amount equivalent to 463.3 million US dollars and 300.0 million rubles. Foreign currency and ruble-denominated government bonds for legal entities and individuals were redeemed for an amount equivalent to 857.7 million US dollars and 173.5 million rubles.

Impact of the global COVID-19 outbreak on the economic environment in which the Bank operates

Since the beginning of 2020, the outbreak of the coronavirus COVID-19 has spread throughout the world, affecting the global economy.

As a result of these events, in March-December 2020, significant changes in the economic environment of the Republic of Belarus were observed in:

- reduction in industrial production and business activity in many sectors of the economy;
- high volatility and decline in stock indices and oil prices;
- depreciation of the Belarusian ruble against main foreign currencies, high volatility in the foreign exchange market.

The negative impact of the COVID-19 outbreak, coupled with the effect of country factors, contributed to the country's economic downturn, characterized by a drop in the gross domestic product. Financial markets are still characterized by lack of stability, frequent and significant price changes and widening spreads on trading operations.

The Bank's management takes all necessary measures to ensure the sustainability of the Bank's activities.

These financial statements reflect management's current assessment of the Bank of the impact that the economic situation has on the operations and financial position of the Bank. The future development of the economy in the Republic of Belarus depends to a large extent on the effectiveness of measures taken by the government and other factors, including legislative and political events beyond the control of the Bank.

The Bank's management is unable to predict the impact that these factors may have on the financial condition of the Bank. The accompanying financial statements do not include adjustments related to this risk.

3. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (hereinafter - "IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee (hereinafter - "IFRIC").

Going concern

These financial statements have been prepared upon the assumption, that the Bank will continue as a going concern.

The Bank believes that it will be able to continue as a going concern despite significant estimation uncertainties. The established business model of the Bank is resistant to changes in the economic environment.

According to the results of the annual financial statements of 2020 prepared in accordance with the Belarusian legislation, the regulatory capital of the Bank as at 31 December 2020 amounted to 63,758 thousand rubles.

For the year ended 31 December 2020, the Bank earned a profit in the amount of 2,598 thousand rubles.

Functional and reporting currency

The Belarusian ruble is the functional currency of the Bank. These financial statements are presented in thousands of Belarusian rubles (unless otherwise specified).

Use of estimates and assumptions

Preparation of financial statements in accordance with IFRSs requires the Management of the Bank to develop estimates and assumptions affecting the reported amounts of assets and liabilities of the Bank, to disclose contingent assets and liabilities as at the reporting date and the reported amounts of income and expenses for the reporting period. Estimates and related assumptions are based on historical information and other factors that are reasonable where the value of assets and liabilities in the statement of financial position cannot be defined in another way. Although Management estimates and assumptions are based on knowledge of the current situation and operations of the Bank, actual results may differ from these estimates.

Estimates and key assumptions are revised on an ongoing basis. Revision of accounting estimates is recognized in the periods in which the estimates are revised and in future periods to which they relate. In applying the recommendations of the IASB and the European Banking Organization to correctly reflect the significant uncertainties associated with the COVID-19 pandemic, the Bank has applied the following international practices:

- ▶ the approach to calculating the influence of macro indicators has been clarified;
- ▶ adjusted the calculation of the level of losses in case of default (PD) in the context of an economic downturn;
- ▶ the algorithm for predicting early repayments has been adjusted to estimate value at risk (EAD). Actual results may differ from the judgments, estimates and assumptions made by management and may differ from those estimated.

Judgments that have the most significant effect on the amounts recognized in the financial statements and estimates that could cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year are presented below.

Allowance for impairment

Classification of financial assets

Assessment of the business models that are applied to the assets and an assessment of whether the contractual terms of the financial asset are solely a payment of the principal amount of the debt and interest on the principal amount of the debt, is disclosed in Note 5 "Significant Accounting Policies".

Measurement of the estimated allowance for expected credit losses (ECL)

Measurement of the estimated allowance for expected credit losses for financial assets measured at amortized cost and measured at fair value through other comprehensive income (hereinafter - "FVTOCI") is an area that requires complex models and significant assumptions about future economic conditions and credit behavior (e.g. the probability of default of customers and arising losses). A number of material judgments are also required when applying accounting requirements for ECL measurement, such as:

- ▶ Determination of criteria for significant increase in credit risk;
- ▶ Selection of suitable models and assumptions for ECL measurement;
- ▶ Setting the number and relative weights of future scenarios for each product/market type and the corresponding ECL; and
- ▶ Creation of groups of homogeneous financial assets for ECL valuation purposes.

Initial data for estimating expected losses

The main baseline data for estimating expected credit losses are the temporary structures of the following variables:

- ▶ probability of default (PD),
- ▶ loss given default (LGD); and
- ▶ exposure at default (EAD).

These indicators are derived from statistical models, other historical data and available sources of information used by the Bank.

Estimates of probability of default (PD) are estimates on a given date that are calculated on the basis of rating models and are evaluated using estimation tools, adapted to different categories of counterparties and positions exposed to credit risk. Where possible, the Bank uses external data. The probability of default is estimated taking into account the contractual maturities of the positions exposed to credit risk. If there are default events, the PD is set in the amount of 100%. In order to improve the quality of credit risk assessment, PD is adjusted to take into account the impact of macroeconomic factors.

The amount of loss given default (LGD) is the amount of probable loss given default, taking into account the repayment of the debt when the default event occurs. Recoverability (RR) is determined based on information on the receipt of cash when implementing collateral for debt by analyzing historical repayments for defaulted debt, or by a combination of calculation methods.

The exposure at default (EAD) is the expected value of the position exposed to credit risk on the date of default. This indicator is calculated by the Bank on the basis of the current value of EAD and its possible changes permitted under the contract, including depreciation/amortization and early repayment. For a financial asset, the value of the EAD is the gross book value in the event of default.

As described above, provided that a maximum 12-month probability of default is used for financial assets for which credit risk has not been significantly increased, the Bank estimates the expected credit losses taking into account the risk of default during the maximum period under the contract during which the financial asset is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period.

Fair value measurement of financial instruments

The Bank estimates fair value using the following structure of fair value, which reflects the nature of the data used in the evaluation:

- Level 1:** Quotations of active market (unadjusted) for identical instruments.
- Level 2:** Valuation techniques based on the observed data, obtained either directly (i.e., prices) or indirectly (i.e. derivatives from prices). This category includes instruments measured using quotations in active markets for similar instruments; quotations for identical or similar instruments in markets that are less active, or other valuation techniques in which all relevant data are directly or indirectly available.
- Level 3:** Valuation techniques based on the unobserved data. This category includes instruments that are evaluated on the basis of quotations for similar instruments when significant unobserved adjustments or assumptions are necessary to reflect the difference between the instruments.

The fair value of financial assets and liabilities traded in an active market is based on market quotes or OTC quotes. For all other financial instruments, the Bank determines fair value using valuation methods.

Determining the fair value of financial assets and liabilities for which there is no market quotation requires the use of the valuation methods described in the relevant accounting policies. For financial instruments that do not have an active market, the determination of fair value is less objective and requires the application of judgments based on liquidity, concentration, uncertainty market factors, cost assumptions and other factors affecting the financial instrument. The purpose of the valuation methods is to determine the fair value, which reflects the value of the financial instrument at the reporting date, which would be determined by market participants acting independently of each other.

Determination of deferred tax assets

A recognized deferred tax asset is the amount of income tax that can be set off against future income taxes and is recognized in the statement of financial position. A deferred tax asset is recognized only to the extent that the relevant tax benefit is likely to be used. The determination of future taxable profits and the amount of tax benefits likely to occur in the future is based on the forecasts of the Management of the Bank.

4. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

New and revised IFRSs issued and effective from 1 January 2020

Conceptual Framework for Financial Reporting (Concept)

The IASB issued a new version of the Conceptual Framework for Financial Reporting (Concept).

Major changes:

- ▶ measurement gaps removed;
- ▶ more deeply disclosed the requirements for the qualitative characteristics of financial information;
- ▶ harmonized criteria for the recognition and assessment of elements of financial statements;
- ▶ improved definitions, in particular “asset” and “liability”;
- ▶ Criteria for including assets and liabilities in reporting have been developed.

This version of the conceptual framework did not have an impact on the financial statements of the Bank.

Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” relating to the sale or contribution of assets between an Investor and its Associate or Joint Venture.

The amendments clarify that gain or loss is recognized in full if the assets transferred to the associate or joint venture are a business as defined in IFRS 3 Business Combinations. Gains or losses on the sale or contribution of assets that do not constitute a business are recognized only to the extent of the investor's non-equity interest in the associate or joint venture.

This amendment did not have any impact on the Bank's financial statements.

Amendments to IFRS 3 “Business Combinations”

The amendments clarify the requirements for a corporate acquisition to be classified as a business or as a group of assets. The new amendment introduces changes to the definition of terms and the application guidance, and provides new illustrative examples.

This amendment did not have any impact on the Bank's financial statements.

Amendments to IAS 1 “Presentation of Financial Statements”

The IASB issued limited amendments to IAS 1 “Presentation of Financial Statements” and Practice Guide (PS) 2 “Making Materiality Judgments”.

Both documents relate to the rules for disclosing information about accounting policies in an organization. IAS 1 requires disclosure of significant accounting policies and does not define “significance” but introduces a new definition of materiality.

According to the amendments issued, information about an accounting policy will be considered material if, when combined with other information also included in the financial statements, it could influence the decisions of users of the financial statements regarding the entity.

These changes were taken into account when disclosing accounting policies in the Bank's financial statements for 2020.

Amendments to IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”

The definition of “materiality” in IAS 8 was changed to the definition of “materiality” in accordance with IAS 1.

Translation from the original into English

Amendments have been made to other IFRSs and the Conceptual Framework for Financial Statements that define “materiality” or refer to the term “materiality”.

The IASB revised the definition of accounting estimates, noting that:

- a) accounting estimates represent amounts of money in the financial statements that are subject to measurement uncertainty;
- b) those monies are the results of the measurement techniques used in applying the accounting policies;
- c) the entity uses judgments and (or) assumptions in making an accounting estimate.

This amendment did not have any impact on the Bank's financial statements.

Standards issued but not yet effective

IFRS 17 Insurance Contracts

The new standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and replaces IFRS 4 Insurance Contracts. The standard provides for the use of a general model modified for insurance contracts with direct participation components described as variable premium contracts.

The general model is presented in a simplified form, subject to certain criteria, by assessing the liability for the remaining coverage using a premium allocation approach. The general model will use current assumptions to estimate the amount, timing and uncertainty of future cash flows, and will separately measure the cost of such uncertainty; the model takes into account market interest rates and the impact of options and guarantees from insurance contract holders. Gains from the sale of insurance policies are deferred in a separate liability component on the 1st day and are aggregated into groups of insurance contracts; it is then recognized systematically in the statement of comprehensive income over the period in which insurers provide coverage, after adjustments have been made due to changes in assumptions about future coverage.

The standard is applied retrospectively, unless impracticable, in which case a modified retrospective or fair value approach is applied.

The standard is effective for annual periods beginning on or after 1 January 2021.

The Bank does not expect that the application of these amendments will have a material effect on the financial statements.

Amendment to IAS 1 "Presentation of Financial Statements"

The amendment to IAS 1 “Presentation of Financial Statements” relates to the change in items relating to the classification of current and long-term liabilities.

These amendments are to be applied for annual reporting periods beginning on or after 1 January 2022.

This amendment will not have a significant impact on the financial statements Bank.

*Annual Improvements to Standards Published by the IASB in May of 2019**Amendments to IFRS 9 "Financial Instruments" (test "10%" on derecognition of financial liabilities)*

When determining whether to derecognise a financial liability whose terms have been changed or modified, an entity shall assess whether the terms differ materially using the 10 percent criterion.

Amendments to IAS 41 Agriculture (Taxation in Fair Value Measurement)

It is proposed to exclude from p.22 of IAS 41 Agriculture the requirement to exclude cash flows for taxation when measuring fair value using this standard.

IFRS 1 "First-time Adoption of IFRS"

The proposed change is to extend the exemption in paragraph D16 (a) to accumulated foreign exchange differences in the reporting of a subsidiary that first adopts IFRSs later than its parent.

The draft amendments propose to oblige a subsidiary that decides to apply paragraph D16 (a) of IFRS 1 "First-time Adoption of IFRSs" to measure cumulative exchange differences using the amounts calculated by the parent from the date of transition of the parent to IFRS. This means that the subsidiary does not need to keep double accounting due to different dates of transition to IFRS. The proposed amendment would also apply to an associate or joint venture that elects to apply paragraph D16 (a) of IFRS 1.

The amendments are not expected to have a significant impact on the Bank's financial statements.

5. SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

Cash and cash equivalents comprise cash; accounts in the National Bank (less cash in the obligatory reserve fund) and financial institutions, which are free from any commitments; loans to financial institutions of countries belonging to the Organization for Economic Cooperation and Development (hereinafter - "OECD") with an initial maturity of less than three months.

Precious metals

Precious metals are measured at fair value, which is based on quoted prices of the London Metal Exchange (LME) at the official exchange rate. Changes of rates for precious metals are reflected as net profit / loss on operations with precious metals in other income / expenses in the statement of comprehensive income. The fair value of monetary metals is determined based on market prices prevailing at the reporting date based on the fixings of the London Bullion Market Association.

Derivative financial instruments

In the course of its ordinary operations, the Bank uses various derivative financial instruments (including forwards, swaps) in foreign exchange markets. These financial instruments are held for trading and are initially recognized at fair value. Fair value is determined on the basis of market quotations or valuation models based on current market and contractual values of corresponding underlying instruments and other factors. Derivative financial instruments with a positive fair value are recognized as assets, and those with a negative fair value - as liabilities.

Income and expenses from transactions with these instruments are recognized in the statement of comprehensive income.

Financial assets and liabilities

Recognition

Financial assets and liabilities are reflected in the statement of financial position when the Bank becomes a party to the contract in respect of the financial instrument concerned.

Financial assets and liabilities are initially recognized at fair value and financial assets and liabilities not classified as measured at fair value through profit or loss are recognized at fair value plus transaction costs directly associated with the acquisition or issuance of a financial asset or financial liability.

All regular way purchases and sales of financial assets are recognized using the accounting method on the trade date, i.e. the date that the Bank commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Classification and subsequent measurement of financial instruments: categories of measurement

The Bank classifies financial instruments using the following categories of measurement:

- measured at fair value through profit or loss (FVPL),
- measured at fair value through other comprehensive income (FVTOCI), and
- measured at amortized cost.

The classification and subsequent measurement of financial assets depend on the business model used by the Bank for asset management and the characteristics of cash flows on the asset.

Translation from the original into English

A financial asset is measured at amortized cost only if it meets both of the following conditions and is not classified at the Bank's discretion as measured at fair value through profit or loss:

- The asset is held within the framework of a business model that seeks to retain assets to obtain contractual cash flows; and
- the contractual terms of the financial asset provide for cash flows, which are solely a payment on the principal amount of the debt and interest accrued on the outstanding part of the principal amount.

A financial asset is measured at fair value through other comprehensive income if it meets both of the following conditions and is not classified at the Bank's discretion as measured at fair value through profit or loss:

- The asset is held within the framework of a business model, the purpose of which is achieved both through the receipt of contractual cash flows and through the sale of financial assets;
- the contractual terms of the financial asset provide for cash flows, which are solely a payment on the principal amount of the debt and interest accrued on the outstanding part of the principal amount.

Classification and subsequent measurement of financial assets: business model

The business model reflects the way the Bank uses to manage assets in order to receive cash flows, depending on whether the Bank's goal is:

- only to receive contractual cash flows from assets ("retention of assets to receive contractual cash flows") or
- to receive contractual cash flows and cash flows arising from the sale of assets ("retention of assets to receive contractual cash flows and to carry out sales").

If the paragraphs above are not applicable, financial assets are classified as "other" business models and are measured at fair value through profit or loss.

The business model is defined for a group of assets (at the portfolio level) on the basis of all relevant evidence of the activity that the Bank intends to undertake to achieve the objective set for portfolio available at the valuation date.

If the business model provides for the retention of assets to receive contractual cash flows or to receive contractual cash flows and to carry out sales, the Bank estimates whether cash flows are solely payments of principal and interest (the "solely payments of principal and interest test" or the "SPPI test").

In carrying out this assessment, the Bank considers whether the contractual cash flows correspond to the terms of the loan agreement, i.e. interest only includes reimbursement in respect of the credit risk, time value of money, other risks of the underlying loan agreement and profit margin.

If the terms of the contract provide for exposure to risk or volatility that do not comply with the terms of the loan agreement, the relevant financial asset is classified and measured at fair value through profit or loss. Solely payments of principal and interest are valued on initial recognition of the asset, and no subsequent revaluation is made.

Loans to customers that meet the SPPI criterion are withheld to receive the contractual cash flows and are recognized at amortized cost.

Impairment of loans measured at amortized cost or at fair value through other comprehensive income is determined using the forecast model of expected credit losses.

Equity instruments measured at FVTOCI

The Bank, upon initial recognition of investments in equity instruments, decided, without the right of its subsequent cancellation, to classify them as equity instruments that are measured at FVTOCI if they meet the definition of an equity instrument in accordance with IAS 32 "Financial Instruments: Presentation" and are not intended for sale. The decision on such a classification is made for each instrument separately. Profit and losses on such equity instruments are never reclassified to profit or loss. Dividends are recognized in profit or loss as other income when the right to receive dividends is established, unless the Bank benefits from such proceeds as a refund of a part of the initial cost of such an instrument. In this case, the profit is recognized in other comprehensive income. Equity instruments measured at FVTOCI are not subject to impairment assessment. When such instruments are disposed of, the accumulated revaluation reserve is transferred to retained earnings.

Impairment of financial assets: estimated allowance for expected credit losses (ECL)

Based on forecasts, the Bank estimates expected credit losses related to debt financial assets measured at amortized cost and fair value through other comprehensive income, and risks arising from credit related commitments and financial guarantee contracts.

The Bank estimates the expected credit losses and recognises the estimated allowance for credit losses at each reporting date. Estimation of expected credit losses reflects:

- an unbiased and probable amount determined by assessing the range of possible results;
- the time value of the money;
- reasonable and corroborated information on past events, current conditions and projected future economic conditions available at the reporting date without excessive cost or effort.

Debt financial assets measured at amortized cost are presented in the statement of financial position less the estimated allowance for expected credit losses. For debt instruments measured at fair value through other comprehensive income, the estimated allowance for expected credit losses is recognized as profit or loss and affects the profit or loss on changes in fair value recognized in other comprehensive income rather than on the book value of those instruments.

The Bank applies the impairment accounting model under IFRS 9 based on changes in credit quality since initial recognition.

A financial asset that is not impaired on initial recognition for which there was no significant increase in credit risk during the reporting period is classified as relating to Stage 1. For Stage 1 financial assets, the expected credit losses are estimated to be equal to the portion of the expected credit losses for the entire term that arise as a result of defaults that may occur within the next 12 months (12-month expected credit losses), or to maturity if it is less than 12 months from the reporting date.

If the Bank detects a significant increase in credit risk from the moment of initial recognition, the asset is transferred to Stage 2 and the expected credit losses are estimated on the basis of expected credit losses for the entire term (expected credit losses for the entire term).

If the Bank determines that a financial asset is impaired (the borrower is defaulted), the asset is transferred to Stage 3 and the expected credit losses are assessed as expected credit losses for the entire term.

The estimated values of expected credit losses can be adjusted for allowances based on expert opinion. The decision to apply adjustments is made by the Bank's management when significant economic and other factors that affect the amount of allowances are identified.

It should be noted that in 2020 the Bank clarified the methodology for determining expected credit losses: the Bank began to assess the probability of a default occurring, as well as the amount of loss in case of default on loans to individuals and legal entities based on its own statistical information.

Determination of a significant increase in credit risk

The Bank has developed an assessment methodology that includes both quantitative and qualitative information to determine a significant increase in credit risk for a particular financial instrument from the moment of its initial recognition.

As a “limiter”, the Bank believes that a significant increase in credit risk occurs no later than the moment when the number of days of past due debt on the asset exceeds 30 days. The Bank determines the number of days of past due debt by counting the number of days starting from the earliest day as of which full payment has not been received.

The Bank verifies the effectiveness of the criteria used to identify significant increases in credit risk through regular checks to ensure the following:

- the criteria are able to detect a significant increase in credit risk before the position exposed to credit risk falls into default;
- the criteria do not coincide with the moment when payment on the asset is more than 30 days overdue;
- the average time between the identification of a significant increase in credit risk and default seems reasonable;
- risk-exposed items are not transferred directly from the 12-month expected credit losses to the loan-impaired;
- there is no unjustified volatility of the estimated allowance for losses when transferring from 12-month expected credit losses to expected credit losses for the entire term.

Determination of default

A financial asset is classified by the Bank as a financial asset for which the default event occurred, in the following cases:

- it is unlikely that the borrower's credit related commitments to the Bank will be repaid in full without the Bank's use of such actions as the realization of collateral (if any); or
- the borrower's debt on any of the Bank's significant credit related commitments is past due by more than 90 days. Overdrafts are considered to be past due from the moment the customer has violated the recommended limit or has been recommended a limit less than the amount of the current outstanding debt;
- restructuring due to the borrower's financial difficulties within the previous 12 months prior to the reporting date.

The initial data in assessing the occurrence of a default event on a financial instrument and its significance may change over time to reflect changes in circumstances.

Forecast information

In order to improve the quality of credit risk assessment, the Bank adjusts the probability of default (PD) taking into account the impact of macroeconomic factors (forecast information).

Indicators determined using expert and (or) statistical methods are used as macroeconomic factors, taking into account their correlation with changes in credit risk and expected credit losses. External information may include economic data and forecasts published by state bodies and monetary regulatory bodies such as the National Bank, the Ministry of Finance, as well as certain individual and scientific forecasts.

For the purpose of accounting for the impact of macroeconomic factors on PD, three scenarios are used (basic, moderate shock, and strong shock). The calculation uses a weighted average scenario with the following specific weights, which can be adjusted based on internal forecast data as well as external information:

- 85% – basic scenario;
- 10% - moderate shock;
- 5% - strong shock.

PD adjustments are carried out taking into account the impact of forecast values of macroeconomic factors published in official sources. To determine the impact of these indicators for a period of more than 1 year, the extrapolation method is used.

Modified financial assets

The Bank seeks, to the extent possible, to revise the contractual terms of loans agreed by the parties, such as extending the contractual terms of payment, to agree on new loan terms, or otherwise modify the contractual cash flows.

The Bank derecognizes a financial asset, such as a loan to a customer, if the renegotiation results in a significant change in cash flows, which is a material modification of the financial asset.

A significant modification results in the redemption of the initial financial asset and recognition of the new financial asset, while classifying the new financial asset in accordance with IFRS 9 (including cash flow testing using the SPPI test). Upon initial recognition, new financial assets are assigned to Stage 1 for the purpose of the ECL valuation, unless the new financial asset is considered to be a POCI asset. Factors that lead to the derecognition of a financial asset include:

- changing the currency of a financial asset;
- exchanging a fixed interest rate for a floating interest rate and vice versa;
- replacement of the debtor (counterparty) under the agreement.

If the modification of contractual cash flows does not result in the derecognition of the financial asset, this is an insignificant modification. Insignificant modifications include changes in the term of the contract, changes in the periodicity of principal and interest payments, and other changes in the terms of the contract that are not significant modifications.

The Bank recognizes profit or loss from modification calculated on the basis of changes in cash flows discounted at the initial effective interest rate in the statement of comprehensive income before the impairment loss is recognized.

In the case of a modification that does not result in derecognition, the Bank also reassesses whether the credit risk on a financial asset has increased significantly since its initial recognition, taking into account all reasonable and corroborated information, including forecast information, and, depending on the degree of deterioration in credit quality from the date of initial recognition, assigns financial instruments to one of the following reservation stages:

- stage 1 - financial assets that do not have factors which indicate a significant increase in credit risk and do not show signs of impairment for which expected credit losses are calculated within one year;
- stage 2 - financial assets that have factors which indicate a significant increase in credit risk, but without signs of impairment, for which the expected credit losses are calculated for the entire life of the financial asset;
- stage 3 - financial assets that show signs of impairment and for which the expected credit losses are calculated for the entire life of the financial asset.

The Bank recognizes as debt restructuring any changes in the terms and conditions of the agreement in terms of changes in the term of repayment (repayment) of the principal debt, and (or) changes in the term of interest payment, and (or) changes in the schedule of repayment of the principal debt (terms and amounts), and (or) changes in the interest rate, as well as the conclusion of a new agreement providing for the Bank gaining an asset exposed to credit risk, and leading to the termination of obligations between the Bank and the debtor under the previously concluded agreement, the debtor for which is the same person or entity due to the inability of the debtor to fulfill its obligations to the Bank, carried out in order to create conditions that ensure the timely and full execution of the debtor's obligations to the Bank.

Problem restructuring, which indicates a material increase in credit risk, is a repeated and subsequent restructuring in the absence of factors indicating a material increase in credit risk and (or) signs of impairment, or restructuring if there are factors indicating a material increase in credit risk at the time of restructuring; or restructuring whereby any outstanding principal debt and (or) interest liabilities are deemed to be urgent; or restructuring involving a carry-over of previously provided nearest payment on the principal debt and (or) interest for a period of more than one year.

Default restructuring is a restructuring related to the inability of the borrower (counterparty) to fulfill its obligations under the original terms of the contract. Restructuring is recognized as default if there is at least one of the following criteria:

- restructuring in the presence of signs of impairment of a financial asset at the time of restructuring, before the fulfillment of the conditions of recovery or failure to fulfill the conditions of recovery or the execution of repeated and subsequent restructuring in the presence of factors indicating a significant increase in credit risk, before the fulfillment of the conditions of recovery or failure to fulfill the conditions of recovery;
- restructuring with write-off of part of debt (principal and (or) interest) to off-balance accounts (debt release);
- the restructuring results in a reduction of the interest rate under the agreement to the level of 2/3 or below the level of 2/3 of the rate set by the Bank's Finance Committee for the relevant currency for a comparable period. If the borrower's financial asset is classified as Stage 3 of reservation, other available financial instruments of the borrower are also classified as Stage 3, and in the event of a new loan to the borrower such loan is classified as a created credit-impaired financial asset.

The condition for the recovery of the credit quality of a financial asset is the payment of at least three consecutive payments to the Bank in full and on time in accordance with the contractual terms with the debtor for at least 12 months from the date of detection of the absence of factors indicating a significant increase in credit risk (for the recovery from stage 2 of reservation to stage 1) or signs of impairment (for the recovery from stage 3 of reservation to stage 2, or, upon fulfilling all these conditions for recovery, to stage 1).

Accounting for POCI assets

POCI assets are assets that are credit-impaired upon initial recognition. POCI assets include the following assets of the Bank:

- new financial assets issued by the Bank as part of the restructuring of the credit-impaired asset (replacement of the credit-impaired asset with other assets with the same degree of credit risk, loan issuance on repayment of previously issued and credit-impaired loan, etc.);
- an asset that arose upon derecognition of a financial asset due to a substantial modification of contract terms as part of the restructuring of the credit-impaired assets;
- acquired credit-impaired assets.

When POCI assets are initially recognised, they do not have an allowance for impairment. Instead, the amount of expected credit losses for the entire period is included in the calculation of the effective interest rate.

To calculate EIR on acquired or created credit-impaired financial assets, the expected cash flows are used, taking into account the initial estimate of expected credit losses for the entire period – that is, the estimated amount of contractual cash flows on the asset is reduced by the amount of expected credit losses for the entire term of its validity. The effective interest rate thus calculated is called the effective risk-adjusted interest rate.

The initial recognition of POCI loans (typically created assets) determines the fair value of such loans based on cash flows expected to be received by the Bank as a result of receipt of cash flows and/or realization of collateral.

To determine fair value, expected cash flows are discounted at the market rate upon initial recognition.

The expected credit loss on POCI-assets is always measured at an amount equal to the expected credit loss over the entire period. However, the value in which the estimated allowance for loss for such assets is recognized is not equal to the total amount of expected credit losses for the entire term, but to the amount of changes in the expected credit losses for the entire period from initial recognition of the asset involved.

An amount reflecting positive changes in expected credit losses over the entire period is recognized as impairment gain, even if the amount of these changes is greater than the amount which was previously recognised as an impairment loss in profit or loss, if any.

Interest on POCI assets is accrued on the effective interest rate taking into account credit risk determined at the time of initial recognition of the asset.

Reclassification of financial assets

Reclassification of financial assets is carried out only in cases of changes in the business model used for the management of financial assets, the Bank must reclassify all affected financial assets, with the reclassified financial asset being assessed in a perspective from the reclassification date, previously recognised gains, losses (including impairment gains or losses) or interest is not recalculated.

Such changes are expected to occur very rarely. Such changes should be determined by the senior management of the Bank as a consequence of external or internal changes and should be significant for the Bank's operations and obvious to external parties.

The classification of liabilities after initial recognition is not subject to change.

Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized in the statement of financial position where:

- the rights to receive cash flows from the asset have expired;
- The Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement;
- the Bank either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Financial liabilities

All financial liabilities are classified as financial liabilities carried at amortized cost, except for the following types of liabilities:

- financial liabilities recognized at fair value through profit or loss;
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement accounting principle is applied;
- financial guarantee contracts.

Financial liabilities measured at amortized cost are initially recognized at fair value less transaction costs incurred. Subsequently, they are accounted for at amortized cost.

If a liability is issued at interest rates higher (lower) than market ones, the difference between the fair and nominal value of the liability is reflected in the statement of comprehensive income as the effect of initial recognition of financial instruments at fair value. Subsequently, the value of the liability recognized in the statement of financial position is adjusted for depreciation of the original expenses and the related expenses are reflected as interest expenses in the statement of comprehensive income.

The financial liabilities recognized at amortized cost include amounts due to banks, amounts due to customers and issued debt securities.

Derecognition of financial liabilities

A financial liability is derecognized when the relevant liability has been performed, cancelled or expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective value is recognized in the statement of comprehensive income.

A change is recognized as significant if the present value of the cash flows under the new terms differs from the present value of the remaining cash flows of the original financial liability by more than 10%.

Offsets of financial assets and liabilities

Financial assets and liabilities shall be set off and the statement of financial position shall recognize the net value only where there is a statutory right to produce the offset of the amounts recognized, and the intention to either set off or to dispose of the asset and settle the liability at the same time.

Investment property

Investment property is represented by premises used by the Bank in order to obtain long-term rental income and (or) increase in their value. The investment property is initially recognized at actual cost, including transaction costs.

Translation from the original into English

These items of property are accounted for at fair value when it can be determined; changes in fair value are recognized in the statement of comprehensive income, are not tested for impairment. If it is impossible to determine fair value, it is carried at cost less accumulated depreciation and accumulated impairment losses, the residual value is assumed to be zero.

Investment property is amortized using the straight-line method. Useful life is 35 to 100 years.

Subsequent costs are capitalized only if the Bank is likely to receive appropriate future economic benefits and it is possible to estimate costs in a reliable manner. All other repair and maintenance costs are attributed to expenses as incurred.

Property and equipment

Property and equipment are recognized at acquisition cost, less accumulated depreciation and allowance for impairment, if any.

At each reporting date, the Bank determines whether there are any signs of impairment of property and equipment. If such signs exist, the Bank makes an estimate of the recoverable value, which is defined as the largest of the net value of the sale of property and equipment and the value derived from their use, which is the current value of expected future cash flows. If the value of property and equipment in the statement of financial position exceeds their estimated recoverable value, the value of property and equipment in the statement of financial position is reduced to the recoverable value and the difference is recognized in the statement of comprehensive income as an expense on impairment of property and equipment.

Gains and losses arising from disposals of property and equipment are determined on the basis of their value in the statement of financial position and recognized as operating expenses in the statement of comprehensive income.

Repair and maintenance costs are reflected in the statement of comprehensive income at the time they arise.

Depreciation is calculated on a straight-line basis using the following annual rates based on estimated useful lives:

| | Annual depreciation rate |
|--|--------------------------|
| Buildings and structures | 1% - 12% |
| Computers | 8% - 25% |
| Motor vehicles | 10% - 20% |
| Furniture and other property and equipment | 8% - 25% |

The depreciation method, the residual value of the assets and the useful life of the assets are reviewed and, if necessary, adjusted for each reporting date.

Intangible assets

An intangible asset is an identifiable non-monetary asset that has no physical shape. An intangible asset is recognized if:

- it is likely that the Bank will receive future economic benefits related to the asset;
- the value of the asset can be reliably measured.

Intangible assets include software, licenses and other intangible assets.

Intangible assets acquired separately are shown at acquisition cost less accumulated amortization and accumulated impairment losses, if any.

Intangible assets with a limited useful life are amortized using a straight-line method over the useful life of 2 to 10 years and are analyzed for impairment whenever there is an indication of possible impairment of an intangible asset. Amortization periods and methods for intangible assets with limited useful lives are reviewed at least at each reporting year-end.

Profit or loss on disposal of intangible assets is defined as the difference between the net income on disposal and the value of the assets recognized in the statement of financial position and is recognized in the statement of comprehensive income as “Other income”.

Repossessed assets

In the ordinary course of business, the Bank receives a title for non-financial assets, which were initially represented as collateral for a loans. When the Bank acquires (i.e. gains a complete ownership) non-financial assets in this way, the asset's classification follows the nature of its intended use by the Bank.

Such assets are initially recognized at the value of appropriate loans recorded in the statement of financial position. Subsequently such assets are usually classified as other assets and accounted for in accordance with IAS 2 at the lower of cost and net realizable value. These policies are also applicable to property acquired by the Bank as loan repayment through repossession of collateral or as compensation for credit and other contracts, and intended solely for subsequent sale or for renovation and resale (by decision of the authorized body of the Bank on the implementation of such reconstruction).

Net realizable value is the estimated selling price for repossessed assets in the ordinary course of business less the estimated sales costs.

At each reporting date the Bank revises the net realizable value and compares it with the cost of repossessed assets recorded in the statement of financial position. If the cost of such assets is not recoverable due to damage or obsolescence of assets, market prices decline or increase in the estimated costs of completion and sales costs, the Bank writes such assets down to their net realizable value and recognizes the write down in operating expenses in the period such write down occurs or losses take place. Subsequently, if the circumstances which led to the write down of assets change or if there is an evidence of net realizable value growth, the amount of write down is reversed so that the revised amount recorded in the statement of financial position would be the lower of net realizable value and cost.

Repossessed assets initially intended for purposes other than sale in the ordinary course of business are subsequently valued according to the accounting policy based on the classification of such assets in the statement of financial position.

Leases

Lease transactions are accounted for in accordance with the requirements of IFRS 16 “Leases”.

Finance lease - Bank as lessee

The Bank recognizes lease agreements as right-of-use assets and related liabilities in the statement of financial position on the date when the asset is available for use by the Bank.

Subsequently, the Bank assesses the lease liability by increasing the book value to reflect interest on the lease liability and reducing the book value to reflect lease payments made.

The Bank recognizes a right-of-use asset at the amount equal to the lease liability, adjusted for the amount of pre-paid or accrued lease payments related to such a lease that is recognized in the statement of financial position immediately prior to the date of first-time adoption.

Subsequently, the Bank measures the right-of-use asset at cost less accumulated amortization and accumulated impairment losses.

The Bank applies the standard using practical simplifications for short-term leases (with a maximum term of 12 months or less) and leases where the underlying asset has a low value (no more than 5,000 US dollars) at the time of initial recognition. In this case, the Bank recognizes lease payments under such leases as an expense using the straight-line method over the lease term.

Finance lease - Bank as lessor

Leases that transfer substantially all the risks and rewards of ownership of an asset are classified as finance leases. As a lessor, the Bank recognizes in the statement of financial position financial lease assets and presents them as receivables, equal to net lease investments. The beginning of the finance lease term is considered to be the date when the agreement is concluded or the corresponding liabilities arise, whichever date is earlier. For the purposes of this definition, the liability must be in writing, signed by the finance lease participants, and contain a description of the lease terms.

The Bank recognizes finance income over the lease term on a schedule that reflects a constant periodic rate of return on the lessor's net investment in the lease.

The lessor distributes finance income over the entire lease term, attributing the lease payments for the period to a decrease in the gross investment in the lease, reducing both the principal and unearned finance income.

If a net investment in a finance lease is impaired, an appropriate allowance is made for impairment losses. A net investment in a finance lease is impaired if its carrying amount exceeds its estimated recoverable amount.

The amount of the impairment loss is calculated as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate of the lease payments due. Net investment in finance leases is carried in the statement of financial position less allowance for impairment losses.

Operating lease - Bank as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases.

Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included into other operating expenses.

Operating lease - Bank as lessor

The Bank presents assets subject to operating leases in the statement of financial position according to the nature of the asset. Lease income from operating leases is recognized in the statement of comprehensive income on a straight-line basis over the lease term as other income.

The Bank recognizes costs, including depreciation and amortization costs incurred in obtaining rental income as an expense.

Impairment of non-financial assets

Book value of non-financial assets of the Bank, excluding deferred tax assets, is reviewed at each reporting date to determine signs of impairment. If there are any such signs of impairment, the cost of recovering the asset is estimated.

The cost of recovering other non-financial asset is the highest value of its fair value less the cost of selling and the cost of its use. In estimating the cost of use, the expected future cash flows are discounted to the present value, using a pre-tax discount rate that reflects the current market estimate of the time value of money and risks specific to the asset. For an asset that does not generate cash flows independently of other assets, the cost of recovery is determined for the cash-generating unit to which the asset relates.

An impairment loss is recognized when the book value of an asset or cash-generating unit exceeds its recoverable value.

All impairment losses on non-financial assets are recognized as expenses in the statement of comprehensive income and are refunded only if there have been changes in the estimates used to determine the cost of recovery. Any impairment loss shall be recovered only to the extent that the book value of the asset does not exceed the book value that would have been determined after deduction of depreciation, if there was no recognition of impairment losses.

Share capital

Ordinary shares are classified as equity.

Share capital is recognized at cost. Expenses for services to third parties directly related to the issue of shares are accounted in equity as a deduction from the amount received during the issue of shares.

Provisions

Provisions are recognized in accounting if the Bank has current liabilities (defined by law or implied) arising from past events, the repayment of which is likely to require the disposal of resources with economic benefits, and the amount of such liabilities can be estimated with sufficient accuracy.

Provisions are measured at the present value of the lowest expected value, which reflects the current market estimate of the time value of cash and, where applicable, the risks inherent in the liability.

Current employee benefits

Current employee benefits are measured at undiscounted value and are attributed to costs during the period in which the services were rendered or the work was performed.

According to the requirements of the legislation of the Republic of Belarus, the Bank makes mandatory payments to the Social Protection Fund of the Ministry of Labor and Social Protection of the Republic of Belarus from the accrued wages of its employees.

The Bank has no other pension liabilities to retired employees or to former employees.

Credit related commitments

The Bank assumes credit related commitments, including financial guarantees, letters of credit and loan commitments. Guarantees are the Bank's irrevocable commitments to perform payments when the customer does not fulfill his obligations to third parties and have the same level of credit risk as loans. Letters of credit are the Bank's written commitments to make payments on behalf of customers in agreed amount when certain conditions are met; they are collateralized with the corresponding deliveries of goods or deposits and, accordingly, have lower risk level, than direct lending.

Loan commitments represent an unused part of loans, guarantees or letters of credit authorized for issue. In respect of the loan commitments, the Bank potentially has the risk to sustain losses in the amount equal to the total amount of the unused commitments. The Bank controls maturity terms for credit related commitments, as usually long-term liabilities bear higher credit risk level than the short-term ones.

Financial guarantees are initially recognized in the financial statements at fair value in 'Other liabilities' being the commission received. Subsequent to initial recognition, the group's liability for each guarantee contract is measured at the higher of the amortized fee, or the best estimate of the costs required to settle the financial liability arising under the guarantee. Increases in the liability associated with financial guarantee contracts are recognized in the statement of comprehensive income. The commission received is recognized on a straight-line basis over the life of the guarantee.

Provisions for potential losses on financial guarantees and other liabilities are recognized when losses are considered probable and can be measured reliably. Such provisions are recognized in other liabilities.

Taxation

Income tax expenses are the sum of current and deferred tax expenses. The amount of expenses on current income taxes is determined taking into account the amount of taxable profit for the year calculated in accordance with the legislation of the Republic of Belarus.

Current tax payments are calculated on the basis of taxable profit for the year, using income tax rates that were in effect during the reporting period.

Balance on current tax liabilities are amounts payable to the state budget or reimbursed from the state budget in respect of taxable profits and deductible current and prior expenses.

Deferred tax is future tax claims or liabilities to recover the difference between the value of assets and liabilities in the financial statements and the corresponding tax base, used in the calculation of taxable profits.

Deferred tax liabilities are generally recognized for all temporary differences, and deferred tax assets are recognized on the likelihood of future taxable profits, from which temporary differences accepted for tax purposes may be deducted.

The value of deferred tax assets in the statement of financial position is reviewed at each reporting date and reduced to the extent that there is no longer a possibility that the benefit of the tax claim is sufficient to recover the asset in full or in part will be received.

Deferred taxes are calculated at rates effective at the reporting date. Deferred taxes are recognized in the statement of comprehensive income, unless the deferred tax relates to items directly reflected in other comprehensive income, in which case the deferred tax is recognized in other comprehensive income.

Expenses for taxes other than income tax applied to the Bank are recognized in operating expenses.

Recognition of income and expenses

Interest income and expenses are recognized in the statement of comprehensive income on an accrual basis using the effective interest rate method. The effective interest rate method is a method of calculating the amortized value of a financial asset or financial liability and allocating interest income and interest costs to the relevant period. Effective interest rate is the discount rate for estimated future cash payments or receipts for the expected term of the financial instrument, or for a shorter period, up to a net value of the financial asset or financial liability recognized in the statement of financial position. When calculating the effective interest rate, the Bank evaluates cash flows taking into account all contractual terms for the financial instrument, but does not take into account future losses on loans. Such calculation includes all fees and commissions paid and received by the parties to the contract, which form an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

If a financial asset or a group of homogeneous financial assets has been written off (partially written off) as a result of impairment, interest income is determined by taking into account the interest rate used for discounting future cash flows for the purpose of calculating impairment losses.

Commission income and expense. All other fees, commissions and other items of income and expense are generally recorded on an accrual basis over the period during which the services are provided as a customer and both receive and consume the benefits of the Bank's performance, generally on a straight-line basis.

Foreign exchange transactions

Foreign exchange transactions are accounted at the exchange rate of the National Bank of the Republic of Belarus effective on the date of the transaction. Monetary assets and liabilities expressed in foreign currencies other than functional currency are converted into Belarusian rubles at the exchange rate effective at the reporting date.

The difference between the contractual exchange rate for a transaction in foreign currency and the official rate of the National Bank of the Republic of Belarus at the date of such transaction is included in net income from transactions in foreign currency.

Non-monetary assets and liabilities recognized at fair value in foreign currency are translated into Belarusian rubles at the exchange rate of the National Bank of the Republic of Belarus effective on the date of determination of fair value. Non-monetary assets and liabilities, recognized at historical value in foreign currency, are translated at the exchange rate of the National Bank of the Republic of Belarus effective on the date of acquisition.

Foreign exchange differences arising from monetary financial assets in foreign currencies that are measured at fair value are included in foreign currency revaluation gains and losses.

Exchange differences arising from non-monetary assets and liabilities at fair value through profit or loss are recognized as part of gains and losses on revaluation at fair value. Foreign exchange differences on non-cash financial assets available for sale are credited to equity in the revaluation reserve for financial assets available for sale.

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following amounts:

| | 31 December 2020 | 31 December 2019 |
|---|---------------------|---------------------|
| Correspondent accounts and overnight deposits in financial organizations | 7,072 | 14,172 |
| Balances on current accounts with the National Bank (other than mandatory reserves) | 14,938 | 13,675 |
| Cash | 6,462 | 7,516 |
| Term interbank deposits placed for 90 days or less | 548 | 289 |
| Total cash and cash equivalents | 29,020 | 35,652 |
| Less allowance for impairment | (460) | (454) |
| Total net cash and cash equivalents | 28,560 | 35,198 |

As at 31 December 2020 and 31 December 2019 cash and cash equivalents have been placed in the National Bank and other resident banks of the Republic of Belarus, as well as non-resident banks of the Republic of Belarus with a credit rating «B», «BB+», «BBB» or no credit rating.

As at 31 December 2020 the correspondent network of the Bank includes 63 Nostro accounts in foreign currency (as at 31 December 2019 – 66 accounts).

As at 31 December 2020 and 31 December 2019 the Bank had no balances on correspondent accounts and overnight deposits with other banks which exceeded 10% of the Bank's capital.

Movement in the provision for cash and cash equivalents is presented as follows:

| | 2020 | | | 2019 | |
|---|----------------------------|--|---|--------------|--------------|
| | 12-month period of loss | Period of loss for the whole term – not impaired | Period of loss for the whole term – impaired | Total | Total |
| Provision for cash equivalents | | | | | |
| Balance as at 31 December | (454) | - | - | (454) | (302) |
| (Accrual) / recovery of an allowance | 6 | - | - | 6 | (152) |
| Balance as at 31 December | (460) | - | - | (460) | (454) |

7. DUE FROM BANKS

| | 31 December 2020 | 31 December 2019 |
|--|---------------------|---------------------|
| Obligatory provisions in the National Bank of the Republic of Belarus | 1,658 | 1,624 |
| Unimpaired and non-overdue loans and other amounts due from financial institutions | 5,104 | 2,413 |
| Total amounts due from banks | 6,762 | 4,037 |
| Less allowance for impairment | (163) | (96) |
| Total net amounts due from banks | 6,599 | 3,941 |

Movement in the provision for amounts due from banks is presented as follows:

| | 2020 | | | 2019 | |
|---|----------------------------|--|---|--------------|-------------|
| | 12-month period of loss | Period of loss for the whole term – not impaired | Period of loss for the whole term – impaired | Total | Total |
| Provision for amounts due from banks | | | | | |
| Balance as at 31 December | (96) | - | - | (96) | (57) |
| (Accrual) / recovery of an allowance | (67) | - | - | (67) | (39) |
| Balance as at 31 December | (163) | - | - | (163) | (96) |

Belarusian credit organizations are required to maintain an interest-free cash deposit (obligatory provision) in the National Bank, the amount of which depends on the amount of funds raised by the credit organization. The legislation provides for significant restrictions on the possibility of withdrawing this deposit by the Bank.

a) Restricted cash in financial organizations (less cash in the obligatory reserve fund of the National Bank)

As at 31 December 2020 and 31 December 2019 amounts due from banks included guarantee deposits placed by the Bank in JSC "ASB Belarusbank" for operations with letters of credit and bank payment cards in the amount of 3,410 thousand Belarusian rubles and 2,313 thousand Belarusian rubles, respectively, and JSC "Belarusian Currency and Stock Exchange" as a contribution to the guarantee fund of the foreign exchange market of the Republic of Belarus in the amount of 100 thousand Belarusian rubles as at 31 December 2020 and 31 December 2019.

b) Concentration of amounts due from banks

As of 31 December 2020 and 31 December 2019, the Bank had no balances in financial organizations exceeding 10% of the capital of the Bank.

8. LOANS TO CUSTOMERS

| | 31 December 2020 | 31 December 2019 |
|-------------------------------------|---------------------|---------------------|
| Loans to corporate customers | 94,962 | 85,744 |
| Loans to individuals | 53,442 | 48,566 |
| Total loans to customers | 148,404 | 134,310 |
| Less allowance for impairment | (1,999) | (6,209) |
| Total net loans to customers | 146,405 | 128,101 |

Quality of loans to corporate customers

The table below provides information on the quality of the corporate customer loan portfolio:
as at 31 December 2020

| | 12-month period of loss | Period of loss for the whole term – not impaired | Period of loss for the whole term – impaired | 31 December 2020 |
|---|-------------------------------|--|---|---------------------|
| Loans to corporate customers | | | | |
| Amount of loans | 92,116 | 1,948 | 898 | 94,962 |
| Allowance for impairment | (32) | (912) | (577) | (1,521) |
| Book value | 92,084 | 1,036 | 321 | 9,441 |

as at 31 December 2019

| | 12-month period of loss | Period of loss for the whole term – not impaired | Period of loss for the whole term – impaired | 31 December 2019 |
|---|-------------------------------|--|---|---------------------|
| Loans to corporate customers | | | | |
| Amount of loans | 83,206 | 2,039 | 499 | 85,744 |
| Allowance for impairment | (3,197) | (167) | (377) | (3,741) |
| Book value | 80,009 | 1,872 | 122 | 82,003 |

a) Analysis of collateral for corporate customer loan portfolio (less the allowance for impairment):

The table below provides the analysis of loans to corporate customers by types of collateral as at 31 December 2020 and 31 December 2019:

| | 31 December 2020 | Share in the loan portfolio, % | 31 December 2019 | Share in the loan portfolio, % |
|---|---------------------|-----------------------------------|---------------------|-----------------------------------|
| Real estate | 42,219 | 44.4% | 39,062 | 45.6% |
| Other collateral | 7,647 | 8.1% | 19,137 | 22.3% |
| Guarantees | 19,368 | 20.4% | 14,249 | 16.6% |
| Equipment and vehicles | 19,480 | 20.5% | 9,327 | 10.9% |
| Unsecured loans | 6,248 | 6.6% | 3,969 | 4.6% |
| Total loans to corporate customers | 94,962 | 100.0% | 85,744 | 100.0% |

Translation from the original into English

In order to reduce credit risk, the Bank requires borrowers to provide collateral, the size and type of which depends on the assessment of the counterparty's credit risk. The main types of collateral received when lending to corporate customers is Real estate.

b) Analysis of ageing of the impaired loans to corporate customers (less allowance for impairment):

| | 31 December 2020 | 31 December 2019 |
|---|---------------------|---------------------|
| Unexpired | 94,046 | 84,912 |
| Overdue less than 1 year | 916 | 832 |
| Total loans to corporate customers | 94,962 | 85,744 |

c) Analysis of the corporate customer loan portfolio by method of loan provision (less allowance for impairment):

| | 31 December 2020 | 31 December 2019 |
|----------------------------------|---------------------|---------------------|
| Credit line, including: | 77,583 | 64,956 |
| <i>Revolving credit line</i> | 35,109 | 35,791 |
| <i>Non-revolving credit line</i> | 42,474 | 29,165 |
| One-time loan | 17,79 | 20,788 |
| Total loans to customers | 94,962 | 85,744 |

d) Analysis of corporate customer loan portfolio by types of business activity (less allowance for impairment):

| | 31 December 2020 | Share in the loan portfolio, % | 31 December 2019 | Share in the loan portfolio, % |
|--|------------------------|-----------------------------------|------------------------|--------------------------------------|
| Wholesale and retail trade, car and motorcycle repair | 37,102 | 39.1% | 34,077 | 39.7% |
| Manufacturing | 31,925 | 33.6% | 24,021 | 28.0% |
| Transportation, warehousing, postal and courier activities | 670 | 0.7% | 4,197 | 4.9% |
| Construction | 2,197 | 2.3% | 2,849 | 3.3% |
| Operations with real estate | 4,929 | 5.2% | 1,456 | 1.7% |
| Agriculture, forestry and fisheries | 612 | 0.6% | 162 | 0.2% |
| Other | 17,527 | 18.5% | 18,973 | 22.2% |
| Total loans to corporate customers | 94,962 | 100.00% | 85,744 | 100.0% |

Quality of loans to individuals

The following table provides information on the quality of loans to individuals:

as at 31 December 2020

| | 12-month period of loss | Period of loss for the whole term – not impaired | Period of loss for the whole term – impaired | 31 December 2020 |
|--------------------------|-------------------------------|--|---|---------------------|
| Loans to individuals | | | | |
| Amount of loans | 52,531 | 484 | 427 | 53,442 |
| Allowance for impairment | (2) | (172) | (304) | (478) |
| Book value | 52,529 | 312 | 123 | 52,964 |

as at 31 December 2019

| | 12-month period of loss | Period of loss for the whole term – not impaired | Period of loss for the whole term – impaired | 31 December 2019 |
|-----------------------------|-------------------------------|--|---|---------------------|
| Loans to individuals | | | | |
| Amount of loans | 42,912 | 169 | 5,485 | 48,566 |
| Allowance for impairment | (343) | (1) | (2,124) | (2,468) |
| Book value | 42,569 | 168 | 3,361 | 46,098 |

All loans to individuals were impaired on a collective basis.

a) Analysis of collateral for loans to individuals (before impairment):

| | 31 December 2020 | 31 December 2019 |
|---|---------------------|---------------------|
| Loans secured by penalties and guarantees | 53,340 | 48,475 |
| Loans secured by pledge of vehicles | 75 | 67 |
| Loans secured by pledge of property | 27 | 24 |
| Total loans to customers | 53,442 | 48,566 |

The above amounts represent the value of the loans reflected in the statement of financial position and not the fair value of the collateral.

b) Analysis of ageing of impaired loans (less allowance for impairment):

| | 31 December 2020 | 31 December 2019 |
|-----------------------------------|---------------------|---------------------|
| Unexpired | 52,943 | 47,843 |
| Overdue less than 1 month | 37 | 382 |
| Overdue from 1 to 6 month | 389 | 341 |
| Overdue from 6 month to 1 year | 73 | - |
| Total loans to individuals | 53,442 | 48,566 |

Loan impairment

Movement in the allowance for loans to customers are as follows:

| | 2020 | | | 2019 | |
|--|----------------------------|--|---|----------------|----------------|
| | 12-month period of loss | Period of loss for the whole term – not impaired | Period of loss for the whole term – impaired | Total | Total |
| Allowance on loans to customers | | | | | |
| Balance as at 31 December | (3,540) | (168) | (2,501) | (6,209) | (5,632) |
| (Accrual) / recovery of an allowance | 3,506 | (916) | 1,051 | 3,641 | 689 |
| Write-off | - | - | 569 | 569 | (1,266) |
| Balance as at 31 December | (34) | (1,084) | (881) | (1,999) | (6,209) |

Significant credit exposures

As at 31 December 2020 and 31 December 2019, the Bank had two and three corporate borrowers, respectively, with loan debt exceeding 10% of the Bank's capital. The total value of these loans as at 31 December 2020 and 31 December 2019 was 19,070 thousand rubles and 22,418 thousand rubles, respectively.

Maximum exposure to credit risk

The maximum exposure to credit risk of loans to customers equals to the book value of the loans recorded in the statement of financial position.

9. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 31 December 2020 | 31 December 2019 |
|---|---------------------|---------------------|
| Derivative financial assets | 21 | - |
| Total financial assets measured at fair value through profit or loss | 21 | - |

Transactions with derivative financial instruments in 2020 are not significant: turnover in financial assets amounted to about 23 thousand rubles, on financial liabilities – 13 thousand rubles.

Net income from operations with derivative financial instruments in the reporting year amounted to 19 thousand rubles.

10. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Investments in equity securities (shares) as of 31 December 2020 and 31 December 2019 are as follows:

| Name | Type of activity | Country of registration | Share in the share capital | 31 December 2020 | 31 December 2019 |
|------------------------|------------------------|-------------------------|----------------------------|------------------|------------------|
| JV "Venbelcom S.A." | Foreign trade activity | Venezuela | 19.60 | 8 | 8 |
| JSV "Belzarubezhstroy" | Construction | Republic of Belarus | 10.00 | - | - |
| JV "MAZ-MAN" | Manufacturing | Republic of Belarus | 7.37 | 26 | 26 |
| Total | | | | 34 | 34 |

Investments in equity securities are classified as financial assets measured at fair value through other comprehensive income.

Signs that the cost may not reflect fair value include, among other things, a significant change in the performance of the investee. As at 31 December 2020 and 31 December 2019, the fair value of the equity instrument of JSV "Belzarubezhstroy" amounted to zero rubles (as at the reporting date, the issuer worked with negative net assets).

In 2020, the Bank received insignificant dividends. In 2019, the Bank did not receive dividends.

Translation from the original into English

Investments in debt securities as at 31 December 2020 and 31 December 2019 are presented as follows:

| | Average rate | Maturity and currency | 31 December 2020 | 31 December 2019 |
|--|--------------|-----------------------|---------------------|---------------------|
| Bonds issued by republican state administrative bodies | 4.05% | 2024, USD | 12,732 | 8,289 |
| Bonds issued by republican state administrative bodies | 3.75% | 2021, EUR | 1,600 | - |
| Bonds issued by the National bank | 7.15% | 2020, BYN | - | 2,986 |
| Bonds issued by resident banks | 9.12% | 2021, BYN | 12,753 | 6,873 |
| Bonds issued by commercial organization | 5.50% | 2029, USD | 2,321 | 3,692 |
| Interest income on bonds accrued | | | 481 | 258 |
| Total investments in debt securities | | | 29,887 | 22,098 |

The following table provides information on the credit quality of financial assets measured at fair value through other comprehensive income.

| | 2020 | | | 2019 | |
|--|-------------------------|--|--|----------------|--------------|
| | 12-month period of loss | Period of loss for the whole term – not impaired | Period of loss for the whole term – impaired | Total | Total |
| Allowance for financial assets measured at fair value through other comprehensive income | | | | | |
| Balance as at 31 December | (213) | - | - | (213) | (536) |
| (Accrual) / recovery of an allowance | (1,099) | - | - | (1,099) | 323 |
| Balance as at 31 December | 1,312 | - | - | (1,312) | (213) |

11. INVESTMENT PROPERTY

The movement of investment property for the year ended 31 December 2020 and 31 December 2019 is as follows:

| | 31 December 2020 | 31 December 2019 |
|---|---------------------|---------------------|
| Initial cost | | |
| Balance as at 1 January | 319 | 251 |
| Acquisition | 16 | 68 |
| Disposal | (68) | - |
| Balance as at 31 December | 267 | 319 |
| Accumulated depreciation | | |
| Balance as at 1 January | (27) | (16) |
| Acquisition | (4) | (11) |
| Disposal | - | - |
| Balance as at 31 December | (31) | (27) |
| Net book value as at 31 December | 236 | 292 |

Translation from the original into English

Income from investment property included in profit or loss is as follows:

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|--|--------------------------------|--------------------------------|
| Rental income from investment property | 10 | 24 |
| Total income for the period | 10 | 24 |

Investment property includes objects that the Bank leases.

The Management of the Bank believes that the fair value of investment property is equal to its book value as of 31 December 2020 and 31 December 2019.

In 2019 and 2020, the Bank carried out an impairment test, as a result of which no signs of impairment of investment property were identified.

In 2019 and 2020, the Bank had no restrictions on the feasibility of its investment property, as well as any contractual liabilities to acquire, construct or build investment property objects, repair, maintain or improve them.

12. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

The following is the information on the movement of property and equipment for the year ended 31 December 2020:

| | Buildings and structures | Vehicles | Office and computer equipment, other | Intangible assets | Investments in intangible assets | Total |
|--|--------------------------|--------------|--------------------------------------|-------------------|----------------------------------|-----------------|
| Initial cost | | | | | | |
| Balance as at 31 December 2019 | 13,122 | 315 | 4,019 | 5,170 | 1 | 22,627 |
| Acquisition | 30 | - | 133 | 1,156 | 1,748 | 3,067 |
| <i>including modernization</i> | 30 | - | 23 | - | - | 53 |
| Disposal | - | - | (193) | (108) | (1,483) | (1,784) |
| Balance as at 31 December 2020 | 13,152 | 315 | 3,959 | 6,218 | 266 | 23,910 |
| Accumulated depreciation | | | | | | |
| Balance as at 31 December 2019 | (3,425) | (311) | (2,926) | (2,325) | - | (8,987) |
| Accrued for the year | (220) | (2) | (225) | (1,042) | - | (1,489) |
| Disposal | - | - | 181 | 94 | - | 275 |
| Balance as at 31 December 2020 | (3,645) | (313) | (2,970) | (3,273) | - | (10,201) |
| Residual value as at 31 December 2019 | 9,697 | 4 | 1,093 | 2,845 | 1 | 13,640 |
| Residual value as at 31 December 2020 | 9,507 | 2 | 989 | 2,945 | 266 | 13,709 |

As of the year ended 31 December 2020, the cost of fully depreciated property and equipment and amortized intangible assets that continue to be used by the Bank amounts to 2,268 thousand rubles.

The following is the information on the movement of property and equipment for the year ended 31 December 2019:

| | Buildings and structures | Vehicles | Office and computer equipment, other | Intangible assets | Investments in intangible assets | Total |
|--|--------------------------|--------------|--------------------------------------|-------------------|----------------------------------|----------------|
| Initial cost | | | | | | |
| Balance as at 31 December 2018 | 14,084 | 422 | 4,280 | 4,106 | 198 | 23,090 |
| Acquisition | 35 | - | 282 | 1,126 | 933 | 2,376 |
| including modernization | 35 | - | 11 | - | - | 46 |
| Disposal | (977) | (107) | (577) | (62) | (1,130) | (2,873) |
| Transfer from investment property | - | - | 34 | - | - | 34 |
| Balance as at 31 December 2019 | 13,122 | 315 | 4,019 | 5,170 | 1 | 22,627 |
| Accumulated depreciation | | | | | | |
| Balance as at 31 December 2018 | (3,268) | (416) | (3,199) | (1,633) | - | (8,516) |
| Accrued for the year | (229) | (2) | (246) | (745) | - | (1,222) |
| Disposal | 72 | 107 | 519 | 53 | - | 751 |
| Transfer from investment property | - | - | - | - | - | - |
| Balance as at 31 December 2019 | (3,425) | (311) | (2,926) | (2,325) | - | (8,987) |
| Residual value as at 31 December 2018 | 10,816 | 6 | 1,081 | 2,473 | 198 | 14,574 |
| Residual value as at 31 December 2019 | 9,697 | 4 | 1,093 | 2,845 | 1 | 13,640 |

As of the year ended 31 December 2019, the cost of fully depreciated property and equipment and amortized intangible assets that continue to be used by the Bank amounts to 3,549 thousand rubles.

In 2019 and 2020, the Bank conducted an impairment test, as a result of which no signs of impairment of property and equipment and intangible assets were identified.

13. RIGHT-OF-USE ASSETS

Right-of-use assets are presented as follows:

| | Здания и сооружения | Итого |
|--------------------------------|------------------------|-------|
| Balance as at 31 December 2018 | 405 | 405 |
| Acquisition | 133 | 133 |
| Depreciation | 277 | 277 |
| Foreign exchange differences | - | - |
| Revaluation | - | - |
| Change payments | - | - |
| Balance as at 31 December 2019 | 261 | 261 |
| Acquisition | 331 | 331 |
| Depreciation | (170) | (170) |
| Foreign exchange differences | 48 | 48 |
| Revaluation | (56) | (56) |
| Change payments | 6 | 6 |
| Balance as at 31 December 2020 | 420 | 420 |

14. OTHER ASSETS

| | 31 December 2020 | 31 December 2019 |
|---|---------------------|---------------------|
| Accrued commission income | 570 | 165 |
| Accrued lease income | 24 | 80 |
| Allowance for unearned income | (477) | (571) |
| Receivables | 205 | 510 |
| Allowance for covering possible losses on accounts receivable from economic activities | (113) | (59) |
| Total other financial assets | 209 | 125 |
| Property transferred to the Bank as repayment of debt | 2,399 | 2,440 |
| Taxes prepaid | 1,168 | 2,199 |
| Advance payments | 786 | 765 |
| Allowance for the impairment of inventories | 179 | 157 |
| Prepayments on capital investments | 61 | 21 |
| Other | (830) | (715) |
| Total other non-financial assets | 3,763 | 4,867 |
| Total other assets | 3,972 | 4,992 |

The Bank has no restrictions on the sale of available assets and has no contractual obligations for the acquisition, construction or improvement of other property, its repair, technical maintenance or improvement.

The movement in the provision for other financial assets is presented as follows:

| | 2020 | | | 2019 | |
|--------------------------------------|-------------------------|--|--|---------|-------|
| | 12-month period of loss | Period of loss for the whole term – not impaired | Period of loss for the whole term – impaired | Total | Total |
| Allowance for other financial assets | | | | | |
| Balance as at 31 December | (630) | - | - | (630) | (622) |
| (Accrual) / recovery of an allowance | 40 | - | 1,359 | 1,399 | (8) |
| Write-off | - | - | (1,359) | (1,359) | - |
| Balance as at 31 December | (590) | - | - | (590) | (630) |

Movements in the allowance for the impairment of inventories are presented below:

| | 2020 | 2019 |
|---|-------|-------|
| Allowance for the impairment of inventories | | |
| Balance as at 1 January | (715) | (429) |
| Recovery/ (accrual) of an allowance | (115) | (286) |
| Balance as at 31 December | (830) | (715) |

The maximum credit risk for other financial assets is equal to the net value of these assets, recorded in the statement of financial position in other assets.

15. DUE TO BANKS

| | 31 December 2020 | 31 December 2019 |
|--|------------------|------------------|
| Correspondent accounts of banks | 5,992 | 4,890 |
| Cash received from resident banks for repurchase transactions | - | 3,998 |
| Loans and deposits from other banks | 3,925 | 400 |
| Accrued interest expenses on other passive transactions with other banks | 11 | 5 |
| Total amounts due to banks | 9,928 | 9,293 |

As of 31 December 2020 and 31 December 2019, the Bank had no balances of banks exceeding 10% of the capital of the Bank.

16. DUE TO CUSTOMERS

| | 31 December 2020 | 31 December 2019 |
|---------------------------------|------------------|------------------|
| Legal entities | | |
| - time deposits | 41,913 | 29,231 |
| - current (settlement) accounts | 29,425 | 21,229 |
| Individuals | | |
| - time deposits | 69,918 | 66,128 |
| - current (settlement) accounts | 9,586 | 12,684 |
| Total amounts due to customers | 141,842 | 129,272 |

As of 31 December 2020 and 31 December 2019, the Bank had no balances of customer funds exceeding 10 of the capital of the Bank.

17. DEBT SECURITIES ISSUED

| | Issue | Maturity | % rate | 31 December 2020 | 31 December 2019 |
|---------------------------------------|-------|------------|--------|---------------------|---------------------|
| Bonds denominated in foreign currency | 13 | 30.09.2027 | 2.50% | 720 | - |
| BYN-denominated bonds | 10 | 22.03.2023 | 10.57% | 198 | 574 |
| BYN-denominated bonds | 11 | 20.04.2023 | 11.00% | 4,325 | 1,103 |
| BYN-denominated bonds | 12 | 25.10.2023 | 11.00% | 8,417 | 8,353 |
| TOTAL | | | | 13,660 | 10,030 |

The information on changes in liabilities related to the financial activities of the Bank as at 31 December 2020 and 31 December 2019 is presented below:

| | Debt securities issued |
|-----------------------------------|------------------------|
| Book value as at 31 December 2018 | 9,748 |
| Acquisition | 26,616 |
| Repayment | (26,095) |
| Interest paid | (1,718) |
| Foreign exchange differences | (397) |
| Interest accrued | 1,876 |
| Book value as at 31 December 2019 | 10,030 |
| Acquisition | 50,076 |
| Repayment | (46,745) |
| Interest paid | (3,132) |
| Foreign exchange differences | 64 |
| Interest accrued | 3,367 |
| Book value as at 31 December 2020 | 13,660 |

18. SUBORDINATED LOANS

In June 2015 the Bank received a subordinated loan from the shareholder company Alm Investments FZE in the amount of 3,500,000 and 4,500,000 US dollars. Maturity date under the contract terms is 30 June 2021, the interest rate equals to LIBOR + 6% rate.

At the reporting date the Bank's balance sheet includes balances of subordinated loans in the amount of 2,304 thousand US dollars and 4,500 thousand US dollars, respectively.

Interest expenses on subordinated loans in 2020 amounted to 67 thousand rubles in equivalent.

In accordance with the contractual terms the creditor shall not meet its requirements to the borrower before meeting requirements of other creditors in full.

The information on changes in liabilities related to the financial activities of the Bank as at 31 December 2020 and 31 December 2019 is presented below:

| | Subordinated loans |
|-----------------------------------|--------------------|
| Book value as at 31 December 2018 | 14,696 |
| Foreign exchange differences | (382) |
| Book value as at 31 December 2019 | 14,314 |
| Foreign exchange differences | 3,234 |
| Book value as at 31 December 2020 | 17,548 |

19. LEASE LIABILITIES

Information on changes in the carrying amount of lease liabilities in cases where the Bank acts as a lessee for 2020 and 2019 is presented as follows:

Translation from the original into English

| | Buildings and structures | Total |
|--------------------------------|--------------------------|-------|
| Balance as at 31 December 2018 | 405 | 405 |
| Acquisition | 133 | 133 |
| Interest expenses | 45 | 45 |
| Repayment | 322 | 322 |
| Foreign exchange differences | - | - |
| Revaluation | - | - |
| Change payments | - | - |
| Balance as at 31 December 2019 | 261 | 261 |
| Acquisition | 331 | 331 |
| Interest expenses | 18 | 18 |
| Repayment | (158) | (158) |
| Foreign exchange differences | 48 | 48 |
| Revaluation | (86) | (86) |
| Change payments | 6 | 6 |
| Balance as at 31 December 2020 | 420 | 420 |

20. DERIVATIVE FINANCIAL LIABILITIES

| | 31 December 2020 | 31 December 2019 |
|---|------------------|------------------|
| Derivative financial liabilities | 2 | - |
| Total financial assets held to maturity | 2 | - |

Transactions with derivative financial instruments in 2020 are not significant: turnover in financial assets amounted to about 23 thousand rubles, on financial liabilities – 13 thousand rubles.

Net income from operations with derivative financial instruments in the reporting year amounted to 19 thousand rubles.

21. OTHER LIABILITIES

| | 31 December 2020 | 31 December 2019 |
|---|------------------|------------------|
| Other payables | 688 | 586 |
| Accrued commission expenses | 269 | 242 |
| Other operating expenses accrued | 116 | 91 |
| Other banking services expenses accrued | 20 | 19 |
| Income of future periods | 14 | 52 |
| Total other financial liabilities | 1,107 | 990 |
| Provision for unpaid leave | 631 | 471 |
| Tax accruals | 526 | 800 |
| Deductions to the Individuals' Deposit Guarantee Fund | 105 | 119 |
| Allowance for credit related commitments | 1 | 433 |
| Total other non-financial liabilities | 1,263 | 1,823 |
| Total other liabilities | 2,370 | 2,813 |

The movement in the allowance for credit related commitments is presented in Note 32 "Contingent Assets and Liabilities".

22. EQUITY

As of 31 December 2020 and 31 December 2019, the announced, issued and fully paid share capital was presented as follows:

| | 31 December 2020 | 31 December 2019 |
|----------------------------------|---------------------|---------------------|
| Number of ordinary shares | 14,662 | 14,662 |
| Nominal value of 1 share, rubles | 2,455 | 2,455 |
| Nominal value of shares | 25,988 | 25,988 |
| Hyperinflation effect | 37,651 | 37,651 |
| Total share capital | 73,639 | 73,639 |

In 2020, no investments were made in the Bank's share capital.

As at 31 December 2020 and 31 December 2019, all ordinary registered shares are fully paid, give the right to one vote, as well as the right to receive dividends and participate in net assets. All ordinary registered shares have equal rights with respect to net assets.

There are no rights, privileges or restrictions on the distribution of dividends and the placement of capital in respect of shareholders of the Bank. In the reporting year and in the year preceding the reporting one, the Bank did not buy or sell its own shares.

In accordance with the Belarusian legislation, the Bank distributes income as dividends or transfers income and retained earnings to fund accounts on the basis of financial statements, prepared in accordance with national accounting rules.

22.1 Basic earnings per ordinary share

Basic earnings per ordinary share are calculated by dividing the profit owned by shareholders holding ordinary shares of the Bank by the average weighted number of ordinary shares in circulation during the period, net of own shares purchased from shareholders.

The Bank does not have its own redeemed shares, as well as ordinary shares potentially diluting profit per share. Thus, diluted earnings per share are equal to basic earnings per share.

| | 31 December 2020 | 31 December 2019 |
|---|---------------------|---------------------|
| Profit for the period owned by shareholders, thousand rubles | 2,598 | 425 |
| Average weighted number of ordinary shares in circulation, pieces | 14,662 | 14,662 |
| Basic earnings per ordinary share, thousand rubles | 0.1772 | 0.0290 |

23. NET INTEREST INCOME

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|--|--------------------------------|--------------------------------|
| Interest income on loans and receivables, including: | 12,071 | 14,304 |
| <i>On loans to customers</i> | 10,367 | 13,440 |
| <i>On amounts due from banks</i> | 192 | 93 |
| <i>On financial assets measured at amortized cost</i> | - | 286 |
| <i>On financial assets measured at fair value through other comprehensive income</i> | 1,512 | 485 |
| Other interest income | 610 | 757 |
| Total interest income | 12,681 | 15,061 |

| | Translation from the original into English | |
|---|--|--------------------------------|
| | Year ended 31 December 2020 | Year ended 31 December 2019 |
| Interest expenses on financial liabilities measured at amortized cost, including: | | |
| On amounts due to customers and subordinated loans | (8,401) | (6,379) |
| On own issued securities | (6,917) | (5,343) |
| On amounts due to banks | (1,340) | (989) |
| Interest expenses on lease liability | (144) | (47) |
| Other interest expenses | (18) | 45 |
| Total interest expenses | (225) | (165) |
| Total interest expenses | <u>(8,644)</u> | <u>(6,499)</u> |
| Total net interest income | <u>4,037</u> | <u>8,562</u> |

24. NET COMMISSION INCOME

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|---|--------------------------------|--------------------------------|
| Commission income | | |
| Commissions on transactions with customers | 6,672 | 5,335 |
| Commissions on transactions with bank payment cards | 4,114 | 2,418 |
| Commissions on foreign currency transactions | - | 1 |
| Other | 203 | 230 |
| Total commission income | <u>10,989</u> | <u>7,984</u> |
| Commissions on transactions with customers | (3,154) | (2,647) |
| Commissions on transactions in AIS "Raschet" | (864) | (300) |
| Commissions on transactions with banks | (139) | (125) |
| Commissions on foreign currency transactions | (87) | (38) |
| Commissions on securities transactions | (21) | (18) |
| Other | (110) | (16) |
| Total commission expenses | <u>(4,375)</u> | <u>(3,144)</u> |
| Total net commission income | <u>6,614</u> | <u>4,840</u> |

25. NET GAIN FROM TRANSACTIONS WITH FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|--|--------------------------------|--------------------------------|
| Gain from transactions with financial assets measured at fair value through profit or loss | 21 | 9 |
| Loss from transactions with financial assets measured at fair value through profit or loss | (2) | (47) |
| Total net gain from transactions with financial assets measured at fair value through profit or loss | <u>19</u> | <u>(38)</u> |

26. NET GAIN FROM FOREIGN CURRENCY TRANSACTIONS

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|---|--------------------------------|--------------------------------|
| Loss from exchange differences | 288 | (27) |
| Profit from foreign currency transactions | 2,071 | 1,865 |
| Total net gain from foreign currency transactions | <u>2,359</u> | <u>1,838</u> |

27. NET GAIN ON OPERATIONS WITH FINANCIAL INSTRUMENTS AT AMORTIZED COST

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|---|--------------------------------|--------------------------------|
| Income from transactions with financial instruments measured at amortized cost | 16 | 71 |
| Expense on transactions with financial instruments measured at amortized cost | (242) | (41) |
| Total net gain on operations with financial instruments measured at amortized cost | (226) | 30 |

28. NET OTHER INCOME

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|--|--------------------------------|--------------------------------|
| Fines received | 806 | 489 |
| Lease proceeds | 283 | 277 |
| Leasing of individuals | 137 | 5 |
| Sum differences | 114 | 63 |
| State fees | 39 | 54 |
| Bonuses and rewards | 32 | 242 |
| Receipts from previously written off debts | 1 | - |
| VISA program funding | - | 135 |
| Net expenses from disposal of property | (1) | (51) |
| Profit/ (loss) from previous years | (3) | 61 |
| Other | 137 | 159 |
| Total other income | 1,545 | 1,434 |

29. PERSONNEL EXPENSES

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|---|--------------------------------|--------------------------------|
| Bank employee benefits | 5,724 | 5,467 |
| Expenditures on contributions to the Social Protection Fund | 1,836 | 1,750 |
| Total personnel expenses | 7,560 | 7,217 |

30. ADMINISTRATIVE EXPENSES

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|--|--------------------------------|--------------------------------|
| Professional services | 1,609 | 1,339 |
| Software expenses | 704 | 638 |
| Taxes other than income tax | 641 | 620 |
| Insurance | 573 | 488 |
| Rent, utilities | 470 | 182 |
| Deductions to the Guarantee Fund for the Protection of Funds | 457 | 433 |
| Repair and maintenance | 287 | 233 |
| Advertising and marketing | 272 | 247 |
| Transport expenses | 157 | 130 |
| Communication and information services | 112 | 130 |
| Security | 91 | 90 |
| Office expenses | 1 | 3 |
| Other | 348 | 329 |
| Total administrative expenses | 5,758 | 4,862 |

31. INCOME TAX EXPENSE

The Bank calculates taxes on the basis of tax accounting, which is conducted in accordance with the tax legislation of the Republic of Belarus, which may differ from IFRSs.

Due to the fact that some types of expenses are not taken into account for taxation purposes, as well as due to the existence of income not subject to taxation, the Bank has certain tax differences.

During the periods ended 31 December 2020 and 31 December 2019, the republican tax rate for the banks of the Republic of Belarus was 25%.

Below is a comparison of the theoretical tax expense with the actual tax expenditure for the years ended 31 December 2020 and 31 December 2019:

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|--|--------------------------------|--------------------------------|
| Profit before tax | 2,952 | 497 |
| Estimated value of income tax at the statutory rate (25%) | 738 | 124 |
| Tax effect of income/ (expenses) not involved in taxation | (29) | (71) |
| Changes in the amount of the unrecognized deferred tax asset | (1,063) | (125) |
| Total income tax expense | (354) | (72) |

Income tax expense is presented as follows:

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|---------------------------------|--------------------------------|--------------------------------|
| Current income tax expense | (353) | (72) |
| Deferred income tax expense | (1) | - |
| Total income tax expense | (354) | (72) |

Temporary differences as at 31 December 2020 and 31 December 2019 are presented as follows:

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|--|--------------------------------|--------------------------------|
| Deductible temporary differences | | |
| Property and equipment and intangible assets | 7,168 | 6,008 |
| Other assets and liabilities | 1,732 | 2,693 |
| Investment property | 246 | 243 |
| Financial assets measured at fair value through other comprehensive income | 16 | 16 |
| Total deductible temporary differences | 9,162 | 8,960 |
| Deferred tax asset at tax rate (25%) | 2,291 | 2,240 |
| Taxable temporary differences | | |
| Loans to customers, cash and cash equivalents, amounts due from banks | (539) | (384) |
| Total taxable temporary differences | (539) | (384) |
| Deferred tax liability at tax rate (25%) | (135) | (96) |
| Unrecognized part of the deferred tax asset | (2,156) | (2,144) |
| Total net tax asset | - | - |

Information on the movement of the deferred tax asset is presented as follows:

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|--|--------------------------------|--------------------------------|
| Unrecognized deferred tax asset at the beginning of the year | 2,144 | 2,186 |
| Accrued for the year | 12 | (42) |
| Unrecognized part of the deferred tax asset | (2,156) | (2,144) |
| Balance as at 31 December | - | - |

The Bank does not recognize a deferred tax asset due to uncertainties associated with the likelihood of taxable profit against which it would be possible to offset the deductible time difference.

32. CONTINGENT ASSETS AND LIABILITIES

Credit related commitments

In the course of its operations, the Bank uses financial instruments with off-balance risks to meet the needs of its customers. These instruments, which carry credit risks of varying degrees, are not reflected in the statement of financial position. The maximum risk of the Bank on conditional financial liabilities and loan liabilities in case of non-performance by the second party under the transaction of its obligations and impairment of all counterclaims and collateral is equivalent to the contractual value of these instruments.

The Bank applies the same credit policy for contingent liabilities as for financial instruments reflected in the statement of financial position.

The Bank's credit related commitments were as follows:

| | 31 December 2020 | 31 December 2019 |
|---|------------------|------------------|
| Unused credit lines | 9,751 | 14,705 |
| Guarantees issued | 5,283 | 2,802 |
| Total credit related commitments | 15,034 | 17,507 |
| Less allowance for credit related commitments | (1) | (433) |
| Total credit related commitments | 15,033 | 17,074 |

The movement in the allowance for credit related commitments is presented as follows:

| | 2020 | | | 2019 | |
|---|----------------------------|--|---|------------|--------------|
| | 12-month period of loss | Period of loss for the whole term – not impaired | Period of loss for the whole term – impaired | Total | Total |
| Allowance for credit related commitments | | | | | |
| Balance as at 31 December | (433) | - | - | (433) | (108) |
| (Accrual) / recovery of an allowance | 432 | - | - | 432 | (325) |
| Balance as at 31 December | (1) | - | - | (1) | (433) |

Legal proceedings

Occasionally in the course of the operations of the Bank, customers and counterparties make claims against the Bank. Management believes that as a result of the proceedings on them the Bank will not incur significant losses and, accordingly, no provisions have been created in the financial statements.

Pension payments

Bank employees receive a pension in accordance with the legislation of the Republic of Belarus. As of 31 December 2020 and 31 December 2019, the Bank had no liabilities for additional benefits, pension health care, insurance, pension compensation to current or former staff members that would have been required to be charged.

Legislation

Some of the provisions of the Belarusian commercial legislation and tax legislation in particular, can be interpreted in different ways and, consequently, be applied inconsistently. In addition, since the interpretation of the legislation by the Management may differ from the official interpretation, and compliance with the laws can be changed by the controlling authorities, it may result in additional taxes and fees, as well as other preventative measures.

The tax system of the Republic of Belarus is characterized by the complexity and frequent changes of legislative norms, the presence of various official explanations and decisions of supervisory bodies, which at times are contradictory, allowing for an ambiguous interpretation. At the same time, there is no extensive judicial practice in the Republic of Belarus on tax matters.

Tax risks in the Republic of Belarus are higher than in other countries. Based on its understanding of the applicable Belarusian tax legislation, official explanations and decisions of the tax authorities, the Management of the Bank believes that tax liabilities are recognized in the adequate amount. However, the treatment of these provisions by the tax authorities may be different and if the tax authorities are able to prove the lawfulness of their position, it may have a significant impact on these financial statements.

The financial statements presented reflect management's view of the impact of the business environment in the Republic of Belarus on the operations and financial position of the Bank. The actual impact of future business conditions may differ from management's estimates.

33. OPERATING SEGMENTS OF THE BANK

Information on operating segments is disclosed on the basis of management reporting data generated by the main business lines of the Bank.

The Bank has three main segments in its operating segments: Retail banking business; Corporate banking business; Treasury, which includes transactions in the interbank loan markets, currency transactions and securities transactions.

All the above mentioned segments are classified by the Bank as reporting (the size of the assets of each operating segment is more than 10% of the total size of the assets of all operating segments). The operating segments were not combined.

1. Retail banking business. At the moment the Bank provides its customers with universal banking, including a full range of products and services most demanded by private individuals: lending, settlement and cash services, currency exchange operations, deposit operations, operations with precious metals and gemstones, issue and maintenance of bank payment cards, money transfers, leasing of safes and depository cells. The priority of the Bank in this operating segment in 2020 was a prompt response to rapidly changing market conditions and the adaptation of the product line to the current market situation, fully and comprehensively meeting customer needs. To maintain the client base, the Bank operated credit products that ensure more favorable lending terms for customers who applied to the Bank for a loan again.

Translation from the original into English

2. Corporate banking business The Bank's corporate banking business specializes in providing comprehensive services to legal entities and individual entrepreneurs, providing customers with a wide range of banking products and services, including cash and settlement services, credit operations, foreign exchange transactions, and foreign trade operations services for customers. The development of corporate business is focused on the diversification of the client base. Much attention is paid to improving the level and quality of customer service.

3. Treasury The Bank's Treasury includes four main areas of activity: operations with financial institutions (banks), including borrowing and placement on the domestic market; the issuance and placement of own debt securities, the implementation of operations with securities; foreign exchange transactions (including the purchase and sale of foreign currency by customers on the Belarusian Currency and Stock Exchange) and derivative financial instruments; depositary services to customers.

As at 31 December 2020:

| Key indicators | Retail business | Corporate business | Treasury | Unallocated part | Total |
|--|-----------------|--------------------|--------------|------------------|--------------|
| Assets and liabilities | | | | | |
| Cash and cash equivalents; amounts due to banks; loans to customers; investment property; property and equipment and intangible assets; right-of-use assets | 59,426 | 103,240 | 48,840 | 14,365 | 225,871 |
| Amounts due to banks; amounts due to customers; debt securities issued; subordinated loans; lease liabilities; derivative financial liability | 69,719 | 103,333 | 9,928 | 420 | 183,400 |
| Other assets | - | - | - | 3,972 | 3,972 |
| Other liabilities | - | - | - | 2,370 | 2,370 |
| Income and expenses | | | | | |
| Interest income | 1,655 | 8,359 | 2,667 | - | 12,681 |
| Interest expenses | (4,351) | (2,636) | (1,657) | - | (8,644) |
| Commission income | 8,647 | 2,334 | 8 | - | 10,989 |
| Commission expenses | (4,310) | (17) | (48) | - | (4,375) |
| Net gain from transactions with financial assets measured at fair value through profit or loss | - | - | 19 | - | 19 |
| Net profit on financial instruments at amortized cost | - | - | (226) | - | (226) |
| Net income on foreign exchange | - | - | 2,359 | - | 2,359 |
| Net (accrual) / recovery of other allowances, net (accrual) / recovery of the allowance for impairment of financial assets, credit related commitments and inventories | 225 | 2,501 | 1,026 | (167) | 3,585 |
| Other income | - | - | - | 1,545 | 1,545 |
| Personnel expenses, amortization / depreciation, administrative expenses | - | - | - | (14,981) | (14,981) |
| Financial result | 1,866 | 10,541 | 4,148 | (13,603) | 2,952 |

As at 31 December 2019:

| Key indicators | Retail business | Corporate business | Treasury | Unallocated part | Total |
|--|-----------------|--------------------|--------------|------------------|------------|
| Assets and liabilities | | | | | |
| Cash and cash equivalents; amounts due to banks; loans to customers; investment property; property and equipment and intangible assets; right-of-use assets | 53,614 | 83,316 | 52,442 | 14,193 | 203,565 |
| Amounts due to banks; amounts due to customers; debt securities issued; subordinated loans; lease liabilities; derivative financial liability | 78,167 | 75,449 | 9,293 | 261 | 163,170 |
| Other assets | - | - | - | 4,992 | 4,992 |
| Other liabilities | - | - | - | 2,813 | 2,813 |
| Income and expenses | | | | | |
| Interest income | 6,015 | 7,631 | 1,415 | - | 15,061 |
| Interest expenses | (3,759) | (1,642) | (1,098) | - | (6,499) |
| Commission income | 6,807 | 1,172 | 5 | - | 7,984 |
| Commission expenses | (3,098) | - | (46) | - | (3,144) |
| Net gain from transactions with financial assets measured at fair value through profit or loss | - | - | (38) | - | (38) |
| Net profit on financial instruments at amortized cost | - | - | 30 | - | 30 |
| Net income on foreign exchange | - | - | 1,838 | - | 1,838 |
| Net (accrual) / recovery of other allowances, net (accrual) / recovery of the allowance for impairment of financial assets, credit related commitments and inventories | 225 | (1,734) | (512) | (559) | (2,580) |
| Other income | - | - | - | 1,434 | 1,434 |
| Personnel expenses, amortization/ depreciation, administrative expenses | - | - | - | (13,589) | (13,589) |
| Financial result | 6,190 | 5,427 | 1,594 | (12,714) | 497 |

34. RISK MANAGEMENT

The Bank manages risks in relation to financial risks (credit, market, country, currency risks, liquidity and interest rate risks), as well as operational risks. The main task of managing financial risks is to minimize the Bank's exposure to banking risks while ensuring a set level of profitability of operations. The assessment of assumed risk also serves as the basis for the optimal allocation of capital, taking into account risks, pricing on operations and evaluation of performance. Operational and legal risk management should ensure proper compliance with internal regulations and procedures in order to minimize these risks.

Credit risk

The Bank assumes credit risk which is the risk that the Bank will incur a loss because its counterparty fails to discharge its contractual financial liabilities to the Bank, or discharged them in an untimely fashion or not in full. The main purpose of managing credit risk is to improve the quality of the Bank's loan portfolio by minimizing its risk.

The main strategic goal of the Bank in the field of credit risk management is to ensure the financial reliability, safe operation and sustainable development of the Bank.

To manage the level of credit risk, the Bank regularly monitors credit risk by individual borrower, as well as each contract and for the Bank's loan portfolio as a whole by monthly studying the system of indicators. The Bank controls credit risk by setting limits on one borrower or a group of related borrowers. Credit risk limits for carrying out active operations within the authority are approved by the Supervisory Board of the Bank and may be revised by the Bank's management bodies as necessary within the authority. Limits are set by type of loans, categories of borrowers or groups of interrelated borrowers, by loans in certain areas, by the most risky areas of lending. Actual compliance with the limits is monitored on a daily basis at the level of heads of structural divisions and the Risk Management System Development Department. In case of exceeding the standard values of the indicators, the heads of the Bank's structural divisions inform the Chairperson of the Management Board of the Bank.

Credit risk management is carried out through regular analysis of the ability of existing and potential borrowers to repay interest payments and the amount of principal debt, as well as through changing credit limits if necessary. In addition, the Bank manages credit risk, in particular, by obtaining collateral and guarantees of companies and individuals. The Bank carries out loan analysis by maturities and the subsequent control of overdue balances. Due to this, the Management is provided with information on the terms of debt.

Types of activity that are subject to credit risk and bear the corresponding maximum credit risk include:

- (a) providing loans and borrowings to customers and placing deposits in other organizations. In these cases, the maximum credit risk is equal to the value of the relevant financial assets, as presented in the statement of financial position;
- (b) the conclusion of contracts on derivative financial instruments, for example, foreign exchange contracts. The maximum credit risk at the end of the reporting period will be equal to the value as presented in the statement of financial position;
- (c) provision of financial guarantees. In this case, the maximum credit risk is equal to the maximum amount that the Bank can pay if the guarantee is executed;
- (d) the provision of a lending liability that is not subject to cancellation during the term of the validity or is canceled only as a result of a material adverse change. If the issuer is unable to fulfill the loan liabilities using cash or other financial instruments, the maximum credit risk is equal to the full amount of the liability.

Credit risk for financial instruments that are not recognized in the statement of financial position is defined as the probability of loss due to the inability of another participant in a transaction with this financial instrument to fulfill the terms of the contract. Regarding the credit risk of the loan liabilities, the Bank is potentially subject to losses in an amount equal to the total amount of unused liabilities.

However, the estimated amount of losses is less than the total amount of unused liabilities, since most loan liabilities depend on customers who support certain loan standards. The Bank applies the same credit policy with respect to contingent liabilities as it does with financial instruments recognized in the statement of financial position, based on the procedures for approving transactions, using risk limits, and monitoring. The Bank controls the maturity of credit related commitments that are not recognized in the statement of financial position, since the longer is the maturity of contingent liabilities, the higher is the credit risk.

The Bank monitors credit risk by borrower, contracts, market segments and the Bank's loan portfolio as a whole by analyzing risk factors and evaluating local indicators and prudential standards set by the National Bank of Belarus on a monthly basis. For each local indicator, limits are set and approved by the Bank's Management Board annually, which allows to minimize and limit the Bank's credit risks. In addition, the Risk Management Department carries out stress-testing of the level of credit risk on a quarterly basis.

The table below shows the analysis of financial assets by loan quality in accordance with the availability of ratings of international rating agencies Standard&Poor's and Fitch as at 31 December 2020.

| 31 December 2020 | from AAA to A- | from BBB+ to BBB- | from BB+ to B- | CCC and lower | Credit rating not assigned | Total |
|--|----------------------|----------------------------|----------------------|---------------------|-------------------------------|----------------|
| Financial assets | | | | | | |
| Cash and cash equivalents (net of cash on hand) | - | 191 | 2,081 | - | 19,826 | 22,098 |
| Due from banks | - | - | 3,329 | - | 3,270 | 6,599 |
| Loans to customers | - | - | - | - | 146,405 | 146,405 |
| Financial assets measured at fair value through profit or loss | - | - | - | - | 21 | 21 |
| Financial assets measured at fair value through other comprehensive income | - | - | - | - | 29,921 | 29,921 |
| Other financial assets | - | - | - | - | 209 | 209 |
| Total financial assets | - | 191 | 5,410 | - | 199,652 | 205,253 |

Translation from the original into English

The table below shows the analysis of financial assets by loan quality in accordance with the availability of ratings of international rating agencies Standard&Poor's and Fitch as at 31 December 2019.

| 31 December 2019 | from AAA to A- | from BBB+ to BBB- | from BB+ to B- | CCC and lower | Credit rating not assigned | Total |
|--|----------------------|----------------------------|----------------------|---------------------|-------------------------------|----------------|
| Financial assets | | | | | | |
| Cash and cash equivalents (net of cash on hand) | 221 | 2,559 | 4,780 | - | 20,122 | 27,682 |
| Due from banks | - | - | 2,260 | - | 1,681 | 3,941 |
| Loans to customers | - | - | - | - | 128,101 | 128,101 |
| Financial assets measured at fair value through profit or loss | - | - | - | - | - | - |
| Financial assets measured at fair value through other comprehensive income | - | - | - | - | 22,132 | 22,132 |
| Other financial assets | - | - | - | - | 125 | 125 |
| Total financial assets | 221 | 2,559 | 7,040 | - | 172,161 | 181,981 |

Market risk

The Bank assumes the market risk associated with open positions in interest rate, currency, debt and equity instruments that are subject to the risk of general and specific market changes. The management strategy for this type of risk and direct control is carried out under the guidance of the Bank's Management Board and the Bank's Financial Committee.

Market risk includes the interest rate risk of the trading portfolio, stock, currency and commodity risks.

The concentration of market risk is manifested in investments in homogeneous financial instruments of one counterparty, trading portfolio, individual currencies, goods, market prices for which change under the influence of the same economic factors.

The Management Board of the Bank sets limits on the level of assumed risk. Compliance with set limits is controlled on a daily basis.

Country risk

Country risk is the risk of losses of the Bank as a result of the influence of both internal and external factors independent of the financial position of counterparties of Bank (for example, non-conformity of contracts to the legislation of foreign states; non-fulfillment by foreign counterparties of obligations due to economic, political, social and other changes in the conditions of its activity).

Translation from the original into English

The following is a geographical analysis of the assets and liabilities of the Bank as at 31 December 2020:

| 31 December 2020 | Belarus | OECD countries | Other countries | Total |
|--|----------------|----------------|-----------------|----------------|
| <u>Financial assets</u> | | | | |
| Cash and cash equivalents | 28,024 | - | 536 | 28,560 |
| Due from banks | 6,599 | - | - | 6,599 |
| Loans to customers | 144,037 | - | 2,368 | 146,405 |
| Financial assets measured at fair value through profit or loss | 21 | - | - | 21 |
| Financial assets measured at fair value through other comprehensive income | 29,921 | - | - | 29,921 |
| Other financial assets | 209 | - | - | 209 |
| Total financial assets | 208,811 | - | 2,904 | 211,715 |
| <u>Financial liabilities</u> | | | | |
| Due to banks | 1,260 | 2,683 | 5,985 | 9,928 |
| Due to customers | 124,034 | - | 17,808 | 141,842 |
| Debt securities issued | 13,660 | - | - | 13,660 |
| Subordinated loans | - | - | 17,548 | 17,548 |
| Lease liabilities | 420 | - | - | 420 |
| Derivative financial liability | 2 | - | - | 2 |
| Other financial liabilities | 1,107 | - | - | 1,107 |
| Total financial liabilities | 140,483 | 2,683 | 41,341 | 184,507 |
| Net balance sheet position | 68,328 | (2,683) | (38,437) | 27,208 |

The following is a geographical analysis of the assets and liabilities of the Bank as at 31 December 2019:

| 31 December 2019 | Belarus | OECD countries | Other countries | Total |
|--|----------------|----------------|-----------------|----------------|
| <u>Financial assets</u> | | | | |
| Cash and cash equivalents | 32,039 | 534 | 2,625 | 35,198 |
| Due from banks | 3,941 | - | - | 3,941 |
| Loans to customers | 129,171 | - | 1,930 | 128,101 |
| Financial assets measured at fair value through profit or loss | - | - | - | - |
| Financial assets measured at fair value through other comprehensive income | 22,132 | - | - | 22,132 |
| Other financial assets | 125 | - | - | 125 |
| Total financial assets | 184,408 | 534 | 4,555 | 189,497 |
| <u>Financial liabilities</u> | | | | |
| Due to banks | 4,788 | - | 4,505 | 9,293 |
| Due to customers | 114,359 | 534 | 14,379 | 129,272 |
| Debt securities issued | 10,030 | - | - | 10,030 |
| Subordinated loans | - | - | 13,314 | 14,314 |
| Lease liabilities | 261 | - | - | 261 |
| Derivative financial liability | - | - | - | - |
| Other financial liabilities | 990 | - | - | 990 |
| Total financial liabilities | 130,428 | 534 | 33,198 | 164,160 |
| Net balance sheet position | 53,980 | - | (28,643) | 25,337 |

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The financial position and cash flows of the Bank are subject to fluctuations in foreign exchange rates.

The Bank sets limits on the level of accepted risk in terms of currencies and in general, both at the end of each day and within one day, and monitors compliance with them on a daily basis. Control over the state of the open currency position and its actual size, as well as compliance with the single limits of the open currency position and limits for each type of foreign currency as a whole for the Bank is carried out by the Treasury on the basis of accounting data on balance and off-balance accounts for each day.

The table below provides an analysis of the currency risk of the Bank as of 31 December 2020. The assets and liabilities of the Bank are reflected in the table of value reflected in the statement of financial position by principal currencies:

| 31 December 2020 | BYN | EUR | USD | Other currencies | Total |
|--|----------------|----------------|---------------|------------------|----------------|
| Financial assets | | | | | |
| Cash and cash equivalents | 18,518 | 2,917 | 5,604 | 1,521 | 28,560 |
| Due from banks | 1,596 | 1,593 | 3,410 | - | 6,599 |
| Loans to customers | 78,111 | 17,992 | 48,492 | 1,810 | 146,405 |
| Financial assets measured at fair value through profit or loss | 21 | - | - | - | 21 |
| Financial assets measured at fair value through other comprehensive income | 13,044 | 1,629 | 15,248 | - | 29,921 |
| Other financial assets | 92 | 4 | 113 | - | 209 |
| Total financial assets | 111,382 | 24,135 | 72,867 | 3,331 | 211,715 |
| Financial liabilities | | | | | |
| Due to banks | 1,254 | 8,671 | 3 | - | 9,928 |
| Due to customers | 69,520 | 19,333 | 49,611 | 3,378 | 141,842 |
| Debt securities issued | 12,940 | - | 720 | - | 13,660 |
| Subordinated loans | - | - | 17,548 | - | 17,548 |
| Lease liabilities | 12 | 387 | 21 | - | 420 |
| Derivative financial liability | 2 | - | - | - | 2 |
| Other financial liabilities | 642 | 53 | 412 | - | 1,107 |
| Total financial liabilities | 84,370 | 28,444 | 68,315 | 3,378 | 184,507 |
| Net balance sheet position | 27,012 | (4,309) | 4,552 | (47) | 27,208 |

Translation from the original into English

The table below provides an analysis of the currency risk of the Bank as of 31 December 2019. The assets and liabilities of the Bank are reflected in the table of value reflected in the statement of financial position by principal currencies:

| 31 December 2019 | BYN | EUR | USD | Other currencies | Total |
|--|---------------|----------------|----------------|---------------------|----------------|
| Financial assets | | | | | |
| Cash and cash equivalents | 19,469 | 6,293 | 7,538 | 1,898 | 35,198 |
| Due from banks | 1,628 | - | 2,313 | - | 3,941 |
| Loans to customers | 63,264 | 12,689 | 48,176 | 3,972 | 128,101 |
| Financial assets measured at fair value through profit or loss | - | - | - | - | - |
| Financial assets measured at fair value through other comprehensive income | 10,015 | - | 12,117 | - | 22,132 |
| Other financial assets | 41 | 3 | 81 | - | 125 |
| Total financial assets | 94,417 | 18,985 | 70,225 | 5,870 | 189,497 |
| Financial liabilities | | | | | |
| Due to banks | 4,759 | 4,517 | 17 | - | 9,293 |
| Due to customers | 50,615 | 15,481 | 59,487 | 3,689 | 129,272 |
| Debt securities issued | 10,030 | - | - | - | 10,030 |
| Subordinated loans | - | - | 14,314 | - | 14,314 |
| Lease liabilities | 12 | 230 | 19 | - | 261 |
| Derivative financial liability | - | - | - | - | - |
| Other financial liabilities | 685 | 4 | 301 | - | 990 |
| Total financial liabilities | 66,101 | 20,232 | 74,138 | 3,689 | 164,160 |
| Net balance sheet position | 28,316 | (1,247) | (3,913) | 2,181 | 25,337 |

The table below presents an analysis of the Bank's sensitivity in 2020 and 2019 to a 10% weakening of the national currency rate against the US dollar, Euro and other currencies, respectively. The analysis suggests that other factors, such as interest rates, remain unchanged.

| | 31 December 2020 10% | 31 December 2019 10% |
|--|-------------------------|-------------------------|
| Effect on profit before tax | | |
| USD | 455 | (1 168) |
| EUR | (431) | (305) |
| Other currencies | (5) | 654 |
| Effect on total income including taxation | | |
| USD | 341 | (876) |
| EUR | (323) | (229) |
| Other currencies | (4) | 491 |

Liquidity risk

Liquidity risk is the risk of difficulties arising from the settlement of financial liabilities through the payment of cash or other financial assets.

Translation from the original into English

The Bank is exposed to the risk due to the daily requirements to have fund for performing settlements transactions in customer accounts, for deposit withdrawals, for loan granting, for settlements on guarantees executed and in derivatives which are settled in cash. The Bank does not reserve funds for simultaneous fulfillment of all those obligations based on the practical experience the level of cash and cash equivalents required for meeting obligations can be forecasted with the sufficient probability. The liquidity risk is managed at all levels in the Bank.

The Bank maintains stable financing base, which comprises mainly current accounts and deposits of corporate customers and individuals, loans and other advances from other banks, and invests funds in diversified portfolio of liquid assets in order to have a possibility without delays meet unforeseen liquidity requirements.

The Financial Committee is the main body that determines the Bank's policy on managing active and passive operations aimed at increasing the Bank's interest and non-interest income while maintaining adequate liquidity, consistency of assets and liabilities by maturity, compliance with prudential standards established by the National Bank, and minimizing the impact of risks inherent to the financial market on the Bank, implementing the relevant policy in the field of liquidity, control and decision-making on effective and high-quality liquidity management.

The Financial Committee carries out the general liquidity management and coordinates the work of the business units, takes actions to minimize the imbalance between assets and liabilities with a floating and fixed interest rate. Constant monitoring (analysis) of the state of short-term liquidity of the Bank's balance and dynamics of its changes, control over the level of liquidity indicators is carried out with the interaction of all participants of the internal control system in accordance with the powers defined in local regulatory legal acts and administrative documents of the Bank.

Information on the maturities of financial assets and liabilities is provided to the Treasury. The Treasury ensures that there is an adequate portfolio of short-term liquid assets, mainly consisting of deposits in banks and other interbank instruments, to maintain a sufficient level of liquidity for the Bank as a whole.

The Treasury controls the daily liquidity position and regularly performs stress-testing on liquidity based on different scenarios, which include ordinary and more negative market conditions.

Economic capital is maintained by the Bank at a level sufficient to cover the liquidity risk assumed by the Bank in the course of its activities under standard conditions and to cover unforeseen losses in the event of non-standard (crisis) situations.

Also, the interbank lending market demonstrates consistently high indicators of activity, indicators of the ratio of supply and demand, the general level of market interest rates indicate its acceptable conjuncture. The Bank's level of access to the market is sufficient to meet the challenges of obtaining financing to cover, if necessary, the emerging liquidity deficit.

The table below shows an analysis representing the remaining maturity of financial liabilities calculated for undiscounted cash flows of financial liabilities (principal debt and interest) at the earliest date when the Bank will be obliged to repay the liability as at 31 December 2020.

| 31 December 2020 | Value in the statement of financial position | Undiscounted cash flow | Up to 1 month | From 1 to 6 months | From 6 months to 1 year | More than 1 year |
|------------------------------|--|------------------------|---------------|--------------------|-------------------------|------------------|
| Financial liabilities | | | | | | |
| Due to banks | 9,928 | 9,928 | 9,928 | - | - | - |
| Due to customers | 141,842 | 162,097 | 78,102 | 50,326 | 26,639 | 7,030 |
| Debt securities issued | 13,660 | 17,533 | 123 | 592 | 727 | 16,091 |

| 31 December 2020 | Value in the statement of financial position | Undiscounted cash flow | Up to 1 month | Translation from the original into English | | |
|---|--|------------------------|---------------|--|-------------------------|------------------|
| | | | | From 1 to 6 months | From 6 months to 1 year | More than 1 year |
| Subordinated loans | 17,548 | 19,764 | 77 | 373 | 457 | 18,857 |
| Lease liabilities | 420 | 420 | 118 | 135 | 81 | 86 |
| Derivative financial liability | 2 | 2 | 2 | - | - | - |
| Other financial liabilities | 1,107 | 1,107 | 1,107 | - | - | - |
| Total potential future payments on financial liabilities | 184,507 | 210,851 | 89,457 | 51,426 | 27,904 | 42,064 |

The table below shows the analysis of financial liabilities due to their maturities as at 31 December 2019:

| 31 December 2019 | Value in the statement of financial position | Undiscounted cash flow | Up to 1 month | From 6 months to 1 year | | |
|---|--|------------------------|---------------|-------------------------|-------------------------|------------------|
| | | | | From 1 to 6 months | From 6 months to 1 year | More than 1 year |
| Financial liabilities | | | | | | |
| Due to banks | 9,293 | 9,293 | 9,293 | - | - | - |
| Due to customers | 129,272 | 105,833 | 43,591 | 24,956 | 27,971 | 9,315 |
| Debt securities issued | 10,030 | 14,149 | 93 | 455 | 555 | 13,046 |
| Subordinated loans | 14,314 | 19,585 | 47 | 229 | 281 | 19,028 |
| Lease liabilities | 261 | 261 | 25 | 110 | 70 | 56 |
| Derivative financial liability | - | - | - | - | - | - |
| Other financial liabilities | 990 | 990 | 990 | - | - | - |
| Total potential future payments on financial liabilities | 164,160 | 150,111 | 54,039 | 25,750 | 28,877 | 41,445 |

The Bank has sufficient amount of liquid and current assets to meet its current liabilities as they fall due.

Interest rate risk

The interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Bank is exposed to the influence of fluctuations in prevailing market interest rates on its financial position and cash flows. Such fluctuations may result in increase of interest margin, but in case of unexpected changes of interest rates can also decrease the interest margin or generate losses. All financial assets and liabilities of the Bank having a floating interest rate are exposed to interest rate risk.

The Bank is subject to interest rate risk mainly on loans granted at floating interest rates in amount and for period which differ from the amounts and periods of fund raising at floating interest rates. In practice interest rates, as a rule, are set for a short-term period. However, although interest rates are mostly fixed in agreements for both financial assets and liabilities they are often reviewed based on mutual agreement in accordance with the current market situation in the short term.

Cash flow sensitivity analysis to changes in interest rates

A change in the interest rate by 1,00 basis points as at the reporting date would have increased / (decreased) income before tax and equity by the amounts indicated below. The analysis implies that all other factors remain constant.

| | 31 December 2020 | | 31 December 2019 | |
|------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | Interest rates +100 b.p. | Interest rates -100 b.p. | Interest rates +100 b.p. | Interest rates -100 b.p. |
| Effect on profit before tax | | | | |
| Floating interest rate instruments | 6,829 | (6,829) | 6,034 | (6,034) |
| Impact on equity | | | | |
| Floating interest rate instruments | 5,122 | (5,122) | 4,525 | (4,525) |

Operational risk

Operational risk is the risk of loss and (or) additional costs incurred by the Bank as a result of non-compliance of the procedures established by the Bank for banking operations and other transactions with legislation or their violation by Bank employees, incompetence or errors of employees of the Bank, inconsistency or failure of the systems used by the Bank, including information systems, as well as a result of external factors.

The Bank's objective is to manage operational risk in order to avoid financial losses and damage to its reputation at minimal cost and to avoid control procedures that constrain initiative and creativity.

The Bank's Management is responsible for the development and implementation of controls to minimize operational risk.

In order to reduce the level of operational risk, the Bank takes the following measures:

- ▶ development and implementation of information security policy (including cyber security);
- ▶ increasing the efficiency of the information security system (including exposure to cyber risk), including through the use of modern software;
- ▶ expanding the tools for preventing fraud;
- ▶ installation of new computing facilities and upgrading of server equipment to reduce the Bank's IT risk;
- ▶ modernization of the functioning of the IT infrastructure and improvement of the Bank's business processes in the field of IT;
- ▶ development of corporate culture and improvement of personnel motivation policy, as well as provision of personnel development.

35. CAPITAL MANAGEMENT

The Bank manages its capital to ensure compliance with legal requirements and to ensure the going concern while setting the goal of ensuring profit by optimizing the balance of liabilities and the capital of the Bank.

The Bank reviews the capital structure on a monthly basis. As a part of this review, the capital adequacy ratio is determined by comparing the regulatory level of capital with quantitatively expressed risks. The Management of the Bank analyses the capital adequacy and risks of each assets' level.

Translation from the original into English

The requirement of the National Bank for the minimum amount of regulatory capital calculated on the basis of accounting records prepared in accordance with Belarusian legislation for banks is to maintain the amount of regulatory capital at a minimum level of 58,1 million rubles with a quarterly adjustment to the value of consumer price index. The regulatory value of regulatory capital as at 1 January 2021 was 62,06 million rubles.

Under the current capital requirements set by National Bank, banks have to maintain a ratio of regulatory capital to risk-weighted assets ("regulatory capital adequacy ratio") above a prescribed minimum level (10%).

The table below presents the regulatory capital based on the Bank's financial information prepared in accordance with the requirements of the national accounting rules:

| | 31 December 2020 | 31 December 2019 |
|---------------------------------|---------------------|---------------------|
| Basic capital | 32,939 | 31,771 |
| Tier 2 capital | 30,819 | 27,348 |
| Total regulatory capital | 63,758 | 59,119 |
| Risk-weighted assets | 172,428 | 155,026 |
| Capital adequacy ratio | 37.0% | 31.8% |

36. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments recognized at fair value

The following is a description of the determination of fair value for financial instruments which are recognized at fair value using valuation methodologies. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

Fair value is defined as the amount at which the instrument can be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than forced sale or liquidation. The best evidence of the fair value is the quotation of financial instruments in an active market. As there is no active market for the main part of the financial instruments of the Bank, their fair value is determined based on the current market situation and specific risk attributable to the specific instrument. The estimates presented herein are not necessarily indicative in the amounts the Bank could realize in a market exchange from the sale of its full holdings of a particular instrument.

The following table below provide the analysis of financial instruments presented at fair value by the level of the hierarchy of sources of fair value:

| 31 December 2020 | Quotes in active market (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total |
|---|--------------------------------------|--|---|--------|
| Financial assets measured at fair value through profit or loss | - | 21 | - | 21 |
| Financial assets measured at fair value through other comprehensive income | - | 29,921 | - | 29,921 |
| Derivative financial liability | - | 2 | - | 2 |

Translation from the original into English

| 31 December 2019 | Quotes in active market (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total |
|--|-----------------------------------|---|---|--------|
| Financial assets measured at fair value through profit or loss | - | - | - | - |
| Financial assets measured at fair value through other comprehensive income | - | 22,132 | - | 22,132 |
| Derivative financial liability | - | - | - | - |

Financial instruments not recorded at fair value in the statement of financial position

The table below presents the fair value of the Bank's financial instruments. The table does not include the fair values of non-financial assets and non-financial liabilities:

| | Book value as at 31.12.2020 | Fair value as at 31.12.2020 | Book value as at 31.12.2019 | Fair value as at 31.12.2019 |
|------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Financial assets | | | | |
| Cash and cash equivalents | 28,560 | 28,560 | 35,198 | 35,198 |
| Due from banks | 6,599 | 6,599 | 3,941 | 3,941 |
| Loans to customers | 146,405 | 154,959 | 128,101 | 131,153 |
| Other financial assets | 209 | 209 | 125 | 125 |
| Total financial assets | 181,773 | 190,327 | 167,365 | 170,417 |
| Financial liabilities | | | | |
| Due to banks | 9,928 | 9,928 | 9,293 | 9,293 |
| Due to customers | 141,842 | 141,842 | 129,272 | 129,272 |
| Debt securities issued | 13,660 | 13,660 | 10,030 | 10,030 |
| Subordinated loans | 17,548 | 17,548 | 14,314 | 14,314 |
| Lease liabilities | 420 | 420 | 261 | 261 |
| Other financial liabilities | 1,107 | 1,107 | 990 | 990 |
| Total financial liabilities | 184,505 | 184,505 | 164,160 | 164,160 |

The techniques and assumptions used in determining the fair value of those financial instruments that are not reflected in these financial statements at fair value are described below.

Assets for which fair value approximates their book value

In the case of financial assets and financial liabilities that are liquid or have a short maturity (less than three months), and in the case of financial assets and liabilities, denominated in foreign currency, it is assumed that their fair value is approximately equal to the book value.

This assumption is also applied to demand deposits and savings accounts without a specific maturity. In the case of financial instruments with a floating interest rate, the changes of which are related to changes in the refinancing the National Bank of the Republic of Belarus, it is assumed that their fair value is also approximately equal to their book value.

Fixed and floating rate financial instruments

For quoted debt instruments, fair values are calculated based on quoted market prices. The fair values of unquoted debt instruments are estimated by discounting future cash flows using the current interest rate taking into account the remaining maturities for debt instruments with similar terms and credit risk.

37. ANALYSIS OF MATURITIES OF ASSETS AND LIABILITIES

The table below presents assets and liabilities by expected maturities:

| | 2020 | | 2019 | | Total |
|--|-----------------|--------------------|-----------------|--------------------|----------------|
| | Within one year | More than one year | Within one year | More than one year | |
| Assets | | | | | |
| Cash and cash equivalents | 28,560 | - | 35,198 | - | 35,198 |
| Due from banks | 1,507 | 5,092 | 1,528 | 2,413 | 3,941 |
| Loans to customers | 36,135 | 110,270 | 36,928 | 91,173 | 128,101 |
| Financial assets measured at fair value through profit or loss | 21 | - | - | - | - |
| Financial assets measured at fair value through other comprehensive income | 17,882 | 12,039 | 13,843 | 8,289 | 22,132 |
| Investment property | - | 236 | - | 292 | 292 |
| Property and equipment and intangible assets | - | 13,709 | - | 13,640 | 13,640 |
| Right-of-use assets | - | 420 | - | 261 | 261 |
| Other assets | 3,972 | - | 4,992 | - | 4,992 |
| Total assets | 88,077 | 141,766 | 92,489 | 116,068 | 208,557 |
| Liabilities | | | | | |
| Due to banks | 7,253 | 2,675 | 9,293 | - | 9,293 |
| Due to customers | 135,030 | 6,812 | 112,669 | 16,603 | 129,282 |
| Debt securities issued | - | 13,660 | - | 10,030 | 10,030 |
| Finance lease debt | - | - | - | - | - |
| Subordinated loans | - | 17,548 | - | 14,314 | 14,314 |
| Lease liabilities | - | 420 | - | 261 | 261 |
| Derivative financial liability | 2 | - | - | - | - |
| Other liabilities | 2,370 | - | 2,813 | - | 2,813 |
| Total liabilities | 144,655 | 41,115 | 124,775 | 41,208 | 165,983 |
| Net long balance sheet position | (56,578) | 100,651 | (32,286) | 74,860 | 42,574 |

Information on the contractual undiscounted liabilities of the Bank before maturity is disclosed in Note 34 "Risk Management".

38. RELATED PARTIES TRANSACTIONS

In the ordinary course of business the Bank carries out transactions with its shareholders, management of the Bank and other related parties. These transactions include settlements, lending, raising of deposits, financing of trade and foreign currency transactions. Based on the Bank's policy all transactions with related parties are carried out on the same terms as those with third parties.

The amounts included in the statement of financial position on transactions with related parties were as follows:

| | <u>31 December 2020</u> | <u>31 December 2019</u> |
|--|-------------------------|-------------------------|
| Loans to customers | 13,642 | 12,289 |
| Allowance for impairment on loans to customers | (6) | (99) |
| Total | <u>13,636</u> | <u>12,190</u> |

As at 31 December 2020 loan liabilities to the Bank are owned by UE "Technohimt Reid", CJSC "Holography Industry", LLC "Dududki" MKSNRIT", CJSC "Belzarubezhstroy", JLLC "TsSP BZS".

As collateral under the two loan agreements, the following are presented: pledge of real estate, pledge of property and equipment.

The following are the funds raised from related parties:

| | <u>31 December 2020</u> | <u>31 December 2019</u> |
|--------------------|-------------------------|-------------------------|
| Due to customers | 2,071 | 4,110 |
| Subordinated loans | 17,548 | 14,314 |
| Total | <u>19,619</u> | <u>18,424</u> |

The amounts included in the statement of comprehensive income on transactions with related parties were as follows:

| | <u>31 December 2020</u> | <u>31 December 2019</u> |
|-------------------------------------|-------------------------|-------------------------|
| Interest income and expenses | | |
| Interest income | 43 | 16 |
| Interest expenses | (240) | (255) |
| Total | <u>(197)</u> | <u>(239)</u> |

Remuneration to key management personnel of the Bank for 2020 amounted to 1,234 thousand rubles (including salary in the amount of 1,232 thousand rubles, interest on deposits in the amount of 2 thousand rubles), remuneration to the members of the Supervisory Board amounted to 205 thousand rubles).

Remuneration to key management personnel of the Bank for 2019 amounted to 1349 thousand rubles (including salary in the amount of 1 345 thousand rubles, interest on deposits in the amount of 4 thousand rubles), remuneration to the members of the Supervisory Board amounted to 169 thousand rubles).

Composition of the controlling party: legal entities – JLLC "Intersportproekt", JV "Saturninfo", Alm Investment FZE; individuals members of the Supervisory Board of the Bank.

| | <u>31 December 2020</u> | <u>31 December 2019</u> |
|--|-------------------------|-------------------------|
| Remuneration to key management personnel, Supervisory Board | 1,439 | 1,514 |
| Total | <u>1,439</u> | <u>1,514</u> |

39. SUBSEQUENT EVENTS

On 22 March 2021, the rating agency Standard & Poor's carried out another assessment of the sovereign credit rating of the Republic of Belarus, as a result of which the long-term and short-term sovereign credit ratings of Belarus of the liabilities in foreign and national currency remained without changes at the level "B", keeping "negative" forecast.

The official exchange rate of the Belarusian ruble towards foreign currencies as of the date of approval of these financial statements for issue is: to the US dollar - 2.5309 rubles per 1 US dollar, to the euro - 3.0705 rubles per 1 euro, to the Russian ruble - 3.4180 rubles per 100 Russian rubles.

By the decision of the Board of the National Bank of April 14, 2021, the refinancing rate was increased by 75 basis points - from April 21, 2021, its value is 8.5% per annum, the rate on an overnight loan is 9.5% per annum, the rate on an overnight deposit is 7.5% per annum.

The impact of the COVID-19 pandemic continues to have a negative impact on the overall economic environment in the Republic of Belarus. In the second quarter of 2021, the coronavirus infection again entered an intensive phase of spread - to reduce the risks of the spread of infection and preserve people's health in the context of the COVID-19 pandemic, restrictive measures were taken, in particular, mask mode, transfer of workers to remote work, restriction of mass events. changes in the rules for crossing the border - which in one way or another affected the activities of all economic entities.

The Bank is closely monitoring the situation and expects further influence on financial instruments measured at fair value and on the assessment of expected credit losses in accordance with IFRS 9.